

DEPARTMENTS OF TRANSPORTATION, TREASURY AND GENERAL GOVERNMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2005

TUESDAY, APRIL 20, 2004

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Richard C. Shelby (chairman) presiding.
Present: Senators Shelby, Bennett, Stevens, Murray, and Dorgan.

DEPARTMENT OF THE TREASURY

OFFICE OF THE SECRETARY

STATEMENT OF HON. JOHN SNOW, SECRETARY

OPENING STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. The subcommittee will come to order.

I would like to welcome Secretary John Snow to this morning's hearing. I look forward to hearing about your vision for the future of the Treasury Department, as well as the challenges you will face during the upcoming fiscal year.

In your first year on the job, you presided, Mr. Secretary, over the divestiture of 30,000 Treasury employees pursuant to the Homeland Security Act of 2002. You also oversaw the establishment of the new Alcohol and Tobacco Tax and Trade Bureau (TTB). Such significant realignment of the Department is no small task, and you are to be commended, Mr. Secretary, for the fine job you have done in completing this transition.

Now that the transition is complete, I would like to hear how the Department is refocusing its resources on its core missions of economic policymaker, financial manager, revenue collector and the leader in tracking terrorist finances. All of these missions are critical to the continued success of the economy.

There is no economic stimulus that can equal the power of allowing taxpayers to retain more of their hard-earned paychecks and thereby spend their money as they best see fit for themselves and their families. I can think of no better way to stunt the present economic growth than a sudden increase in taxes. Such an action would dry up the additional capital that has flowed into our private

markets and would set the Nation's economy back on the downward course of recession.

Even if those who propose to raise taxes during the recovery are prevented from doing so, we will still face the specter of numerous expiring tax cuts over the coming years. Without a permanent extension of tax cuts, there is no way to provide the certainty and stability necessary to sustain our current economic recovery.

Even as our economy recovers, the threat of terrorism still hangs over us. Given its long-standing relationships with financial institutions throughout the world and its existing intelligence gathering and law-enforcement infrastructure, the Department is ideally suited to lead the Federal Government in our Nation's fight against terrorist financing. I believe it is time for the Treasury to step up to the task.

Along those lines, I am keenly interested in the proposal to create the Office of Terrorism and Financial Intelligence (TFI). All of us share the administration's goal to thwart financial support for terrorists. We will look forward to working with you to establish and to fund this office. I believe it is critical that we work together to ensure that we get the right structure and the necessary funding in place.

The Banking Committee and the Select Committee on Intelligence combined their efforts to give Treasury a platform to reposition itself as the linchpin in the Nation's efforts to identify and track movements of funds and commodities which would support those who seek to destroy our way of life.

The Intelligence Authorization Act of 2004 included a new Assistant Secretary for Intelligence and Analysis. Treasury committed to create an office that would "enhance the Department's access to Intelligence Community information and permit a reorganization and upgrading of the scope and capacities of Treasury's intelligence functions in light of the Nation's counter-terrorist and economic sanctions programs."

In hearings last year in the Banking Committee, we heard from various experts who noted a need for the Treasury to recapture enforcement capabilities. Given the unique status of Treasury with the financial services industry, I believe only you have the full responsibility, Mr. Secretary, for ensuring the integrity of the financial services industry. I am, therefore, disappointed that your vision for the revitalized role of Treasury has not been as robust as I would have liked. I see no plans for reorganization or the growth that we anticipated, especially in the enforcement area.

Your letter dated April 16 merely reiterates the agreements our staffs reached in November of 2003. You propose no real increase in staff and request no new funding in the budget submission. I expected more, but I trust that you will take this task as a priority. No task of this size can be accomplished without your direction, Mr. Secretary, and your vision.

We on this committee and on the Banking Committee stand ready to assist. We have prioritized and will continue to prioritize our oversight function to ensure that the American people are safe and the integrity of our Financial Services Industry is secure.

Mr. Secretary, I would be remiss if we did not discuss the Department of Treasury's \$11.6 billion budget request for 2005, and

particularly the \$10.7 billion request for the Internal Revenue Service (IRS). The IRS faces enormous problems, and I am especially concerned about the continuing failures in computer modernization.

Mr. Secretary, the IRS has spent \$2.7 billion on the Business System Modernization (BSM) program and has yet to produce any real benefit to the taxpayer. In fact, the IRS is running late and is over-budget in all of seven core projects related to BSM. I am interested in hearing what oversight the Department of Treasury is performing to help the IRS put this program on track. Without modernization, the IRS will never be able to achieve meaningful improvements to taxpayer customer service or compliance.

Mr. Secretary, I listened with interest to your statements in the news on April the 15th about simplifying the Federal tax code. I believe that the complexity of the tax code is a large part of the problem at the IRS. Our tax code and its regulations total a staggering 54,000 pages: they are too complex, too confusing, and too costly to comply with.

Comprehensive reform of the tax code itself would go a long way to reducing tax fraud by making the process simpler and the system fairer for all taxpayers. A less complex tax code would provide fewer opportunities for cheaters and reduce the paperwork burden for all Americans. I look forward to working with you to reach this goal.

Mr. Secretary, I look forward to hearing your thoughts on the economy and also on the Treasury's budget request. I look forward to working with you on other issues that are important for the Nation.

Senator Murray.

STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. Thank you, Mr. Chairman.

I want to welcome Secretary Snow to our subcommittee. And this morning I want to focus on three issues: terrorist financing, outsourcing, and IRS debt collection.

Let me start with terrorist financing. Our government has certainly stepped up its efforts to stop the flow of money to terrorist organizations since September 11. Unfortunately, that is not saying much, given the attitudes of some in our government before September 11.

Richard Clarke, the former counter-terrorism official, documented these attitudes in his recent book "Against All Enemies." Clarke said, "I wanted to raise the profile of our efforts to combat terrorist financing, but found little interest." Clarke said that the President's economic advisor, Larry Lindsay, "had long argued for weakening U.S.'s anti-money-laundering laws" and Clarke said that former Treasury Secretary Paul O'Neill "was lukewarm at best towards the multilateral efforts to 'name and shame' foreign laundering havens."

Since then, we have taken some important steps, but I am concerned that we may still be "behind the curve" in areas such as enforcement, nontraditional banking, staff and resources, and communication.

Our country and our international partners have put new laws on the books, but we must do a better job of enforcing them. We cannot allow companies like Riggs Bank to shelter their clients by ignoring critical Federal requirements to report large and suspicious cash transactions, especially transactions involving foreign nationals and unknown charities.

Our money-laundering laws must be adhered to and enforced, and we must insist that Saudi Arabia and other nations follow through on their commitments to shut down suspect charities that are financing the recruiting of future terrorists and possibly terrorist attacks as well.

We also need to stay a step ahead of those who would harm us by looking beyond traditional banking. We can expect terrorists to act like drug smugglers. As we successfully close down their access to cash in one area, they will move to another and we have got to stay a step ahead. That means we must close down their operations of smuggling gold, cash, and diamonds across borders. We also need to get our hands around the "hawala" money transfer system. We have got to be able to distinguish between the legitimate transactions of immigrants who are sending money to their families back home and dangerous transactions that move cash into the hands of terrorists.

We also need to make sure that new government officials we've put in place have the resources, the staff, and communication to do their jobs effectively.

Recently we have expanded the portfolios of several Federal agencies. We've appointed new Under Secretaries, Deputy Under Secretaries and Assistant Secretaries. That is a fine start but we need to make sure that these offices actually have the staff and resources to succeed and we must avoid the communication problems that have plagued the CIA and the FBI.

Clearly, we have got a lot of work to do to stop the flow of money to terrorist organizations and that is one of the topics I will explore with the Secretary today.

I also want to talk about outsourcing. Secretary Snow has been outspoken in his belief that moving American jobs offshore serves to benefit the American economy in the long run. Mr. Chairman, I represent the most trade dependent State in the Nation, and I have a strong record of supporting international trade.

But I do not believe that expanding trade requires hundreds of thousands of American families to lose their jobs, their health care, and their dignity so that their employers can pursue cheaper labor elsewhere.

One recent survey suggests that we may be on the leading edge of an outsourcing tidal wave, especially in areas like information technology (IT). According to a recent survey of 182 companies conducted by DiamondCluster International, 86 percent plan to increase the use of offshore IT outsourcing firms in the next 12 months. That compares to just 32 percent of the companies that responded the same way just 2 years ago.

Those who defend outsourcing claim that the companies that are shipping jobs overseas today will increase their employment here in the United States down the road. That is little comfort to some-

one who has lost his job, particularly because his old job is not the one that will be coming back.

There is a real mismatch between the skills needed for the jobs that are moving overseas and the skills needed for the jobs that may be open in the future. For example, an increasing number of U.S. engineering jobs have been moved to India. Right now the unemployment rate for engineers in the United States is twice the national average. That is really hurting a lot of families.

There are fields where we have shortages like nursing, but I do not know how many engineers can go to school to become a nurse while they still have to feed their families. These mismatches are all around.

The factory worker who is laid off from a manufacturing company cannot turn around tomorrow and take a job at a drug company that looks for pharmacological researchers.

Simply put, the people who suffer from outsourcing today cannot move easily into available jobs. The skills they have today are not the ones that will be in demand tomorrow.

Fortunately, we do know how to help people move from yesterday's jobs into the jobs that are open today and the jobs that will be open tomorrow. The answer is our Nation's job training system. This is the time to invest in that system so it can help all of the people who have lost their jobs through no fault of their own. Unfortunately, the administration is moving in the wrong direction.

In addition to serving as the ranking member on this subcommittee, I also serve as the ranking member of the Employment Subcommittee in the Senate. I have analyzed in detail President Bush's proposal to increase job training, and here is the bottom line. His proposal does not add \$1 to our Federal efforts to train our workforce. Not \$1.

In fact, the President's budget cuts \$300 million from existing assistance for workforce training. Even worse, those new cuts for 2005 come on top of more than \$500 million in job training and employment service reductions that have been recommended since President Bush took office. In my book, those who defend outsourcing should be the biggest advocates of a real increase in job training for American workers who end up on the losing end of the international trade, and I want to explore that later this morning with Secretary Snow as well.

Finally, Mr. Chairman, I want to discuss my concerns over the Secretary's proposal to allow private contractors to collect unpaid tax debts owed to the IRS. This proposal is currently included in the FISC/ETI bill that will be debated again on the Senate floor in a few days. We all know that the IRS has done a very poor job of collecting unpaid tax debts. In fact, to my shock, it has become apparent that the IRS has not even collected unpaid taxes from several individuals who have been convicted in court of tax evasion. The Treasury Department should request sufficient funds so that IRS agents can collect those unpaid debts. But instead the Department has decided to invite the private sector to do the job. For anyone familiar with the Treasury Department's record on using contractors, it raises serious red flags about the privacy of individual taxpayers.

The Department's abominable record on ensuring that contractors protect the privacy of our citizens is not speculation. It is fact. A little more than a year ago the Treasury Inspector General for Tax Administration (TIGTA) did an audit and observed that the IRS has no assurance that its contractors completed the required background investigations of their employees.

Just last month, the Treasury Inspector General (IG) completed another audit that made it clear that the IRS continues to do a very poor job of monitoring the overall trustworthiness of its private contractors. According to the Inspector General, IRS contractors had "committed numerous security violations that placed IRS equipment and taxpayer data at risk."

In some cases, contractors blatantly circumvented IRS policies and procedures, even when the IRS's security personnel identified inappropriate practices. One disgruntled contractor employee planted a computer time bomb on an IRS system that would have destroyed sensitive taxpayer data. Another contractor connected an unsecured computer to the IRS network and cost the agency \$1.5 million in downtime and cleanup costs to eliminate a virus introduced by that contractor.

The Treasury Department has given all sorts of verbal guarantees that taxpayers will not have their privacy compromised when private contractors start collecting tax debts from the public. But given the IRS's abysmal record in monitoring its own contractors, I am deeply concerned that these private collection agents will not respect the privacy of taxpayers.

I hope this subcommittee will insist on nothing less than the strictest privacy guarantees and assurances before we allow the IRS to allow private contractors into the Federal debt collection business.

Thank you very much, Mr. Chairman.
Senator SHELBY. Senator Bennett.

STATEMENT OF SENATOR ROBERT F. BENNETT

Senator BENNETT. Thank you, Mr. Chairman. This is the first time that I have served on the Treasury and General Government portion of this subcommittee. I have been involved in the Transportation portion. So I come to these issues, Secretary Snow, with less of a background than I do as the other issues that we have had.

I listened to Senator Murray talk about the IRS and, of course, one of the great frustrations that I have had while I have been in the Senate is the inability of the IRS to get on top of the technological revolution and take advantage of the increase in productivity that IT makes available to everybody else.

We all remember, and I cannot put a year on it out of my memory, but we remember the tremendous investment that the IRS made during the 1990s and came up totally empty-handed. I worked a little bit with that as Chairman of the Committee on the Year 2000 Problem and we were frustrated by the inability of the IRS to be as forward in their understanding of IT as some of the other departments.

So, like Senator Murray, I would like to hear from the Secretary as to where the IRS is today in trying to get their computers up

to speed and whether progress has been made from the unfortunate performance that existed in the 1990s.

I have often thought if this were a business, given the amount of information that is provided to the IRS electronically, the IRS ought to be able to figure the tax return and on the 15th of April send the taxpayer either a bill or a check and the taxpayer would not have to be involved in figuring out his own taxes at all.

But unfortunately, we are not at that point and I would hope that might be a goal that could be set for some point in the future, because with 1099s and W-2s and W-4s and K-1s and so on, all in the hands of the IRS to begin with, the computer system ought to be good enough that it could produce that sort of result.

So recognizing that the bulk of, if I read your testimony correctly, Mr. Secretary, the bulk of your \$11.7 billion request is for the IRS. I think that is an area we could profitably spend some time talking about.

I thank the Secretary for his willingness to appear here and look forward to his testimony.

Senator SHELBY. Senator Dorgan.

STATEMENT OF SENATOR BYRON L. DORGAN

Senator DORGAN. Mr. Chairman, thank you very much.

I have another Appropriations Subcommittee hearing going on next-door, around the corner, so I will be going back and forth. I did read the Secretary's statement last evening and I do want to come back and ask some questions about a number of issues including, as he might expect, Cuban travel and the use of the Office of Foreign Assets Control (OFAC) to do what they have been doing recently.

I hope the Chairman will give me an opportunity to pursue that at some length because I think that is a very important topic.

Senator SHELBY. We will have a number of rounds.

Mr. Secretary, we welcome you again to the committee. Your testimony will be made part of the record in its entirety. You proceed as you wish.

STATEMENT OF SECRETARY JOHN SNOW

Secretary SNOW. Thank you very much, Mr. Chairman and Senator Murray, Senator Dorgan, Senator Bennett.

It is a great privilege to appear before you and have an opportunity to talk about Treasury, its major thrust, how it is functioning in this new post-Homeland Security environment, where so many of the former enforcement functions are no longer a part of Treasury. Treasury continues to have major responsibilities in the financial war on terror, as the Chairman pointed out.

As Senator Bennett pointed out, Treasury's budget is largely a function of the IRS. It is 90 percent of the total budget. The IRS is the biggest single management problem inside the Treasury Department. It is something that I try to spend a good deal of time on, now that we have a Deputy Secretary, Sam Bodman, who had been the Deputy Secretary at Commerce. In his role as chief operating officer of the Treasury Department, I have asked Sam to give particular attention to the IRS. There are a myriad of issues there

that we can talk about, some of which have already been alluded to in your questions.

A word on our budget, and I will be brief. It reflects increases in two areas basically. Everything else is either down or funded at the prior steady State levels.

One is IRS enforcement. Here we feel that there is need for more attention on enforcement. And the budget proposes adding a number of additional positions in the IRS focusing on the enforcement activities. Of the \$300 million we are asking for additional enforcement money, two-thirds of it will go to corporations to deal with auditing of corporations to get at abusive tax schemes and tax shelters and high income people, and the marketing of tax shelters and abusive tax schemes to them.

The first area of increase is enforcement so that we get effective enforcement and better compliance. There seems to have been some erosion in that area over the last few years, and I think the IRS is doing a better job on respecting taxpayer rights, with taxpayer services, with treating taxpayers better, answering the phones better, giving better advice when calls come in. So the customer service side of the IRS has improved. Now we need to make equal improvements in the enforcement side.

The second broad area of increase, and Mr. Chairman, this goes precisely to the issue you raised with me in your opening comments and otherwise in our correspondence, is Treasury's role in the war on terror.

Our role, as we see it, is to lead the financial war on terror, to interdict the flows of funds, to be there as a guardian of the financial system of the United States so that the financial system is not used to move terrorist funds. And to enlist the finance ministers and central banks of the world at large to do the same thing, to create a broad coalition, a global coalition, in the financial war on terrorism.

What we know about terrorism is that it knows no borders. So if we are going to effectively deal with it, we have to enlist all of the world. And I think we have made very good progress on that score.

This weekend, the finance ministers of the world are in Washington for the International Monetary Fund (IMF) and World Bank and G-7 meetings. I have called a separate meeting of the finance ministers on the issue of global terrorism to make sure we are exchanging best practices and continuing to learn from each other and take appropriate actions.

So the second area where we have asked for a budget increase is fighting the financial war on terrorism, and I greatly appreciate, Mr. Chairman, your support and the support of other members of the committee in setting up the new office in Treasury which will be the focal point for our anti-terrorist funding activities.

The new Under Secretary will be responsible for the functioning office and the principal person in the United States Government, responsible day to day to think about how our financial system could be penetrated by terrorists to move money, with broad authority over the Office of Foreign Assets Control (OFAC) and Financial Crimes Enforcement Network (FinCEN) and the Bank Se-

crecy Act and the USA PATRIOT Act, and all those tools that Congress has made available to wage this war on terrorism.

The Office has a new Assistant Secretary, approved by the Congress last fiscal year, so that Treasury will now have access to its own intelligence gathering, an Assistant Secretary for Intelligence. I commend the Congress for recognizing that need in Treasury, to put a priority on financial intelligence so that this Assistant Secretary can continue to speak to the Federal Bureau of Investigation (FBI), speak to the National Security Advisor (NSA), speak to the Central Intelligence Agency (CIA), speak to the intergovernmental intelligence gatherers about the role of financial intelligence.

Everything else in the budget is basically static. I hope we will be able to satisfy you, Mr. Chairman. I know that it will be a long dialogue that we will have on this issue of Treasury playing its appropriate role.

Deputy Secretary Bodman will be up before the Banking Committee next week to elaborate on these points.

Finally, a word on the economy. A year ago, when I testified here, there were great questions about what course the American economy was on. You will recall at that time there was concern about the possibility of a double dip recession. There was concern about deflation.

I think it is safe to say we have turned the corner and have the economy on a very good path. And clearly the tax cuts that Congress approved last year lie at the very center of the changed circumstances of the American economy, with growth for this quarter forecasted to be between 4 percent and 5 percent, with growth in the last half of last year, after the tax cuts took effect, of over 6 percent, with jobs coming back, 308,000 jobs in March and over 500,000 for the first quarter.

PREPARED STATEMENT

Corporate spending is up. Exports are up. Retail sales are strong. Construction is strong. Housing is strong. The economy is on a good strong path and, again, I appreciate the role Congress played in making that possible with the Jobs and Growth Bill.

With that, Mr. Chairman, I thank you again for the chance to appear before you and look forward to responding to your questions.

[The statement follows:]

PREPARED STATEMENT OF JOHN SNOW

Chairman Shelby, Senator Murray, and Members of the committee, I appreciate the opportunity to appear before you today to discuss President Bush's fiscal year 2005 proposed budget for the Department of the Treasury.

The President's request for fiscal year 2005 of \$11.7 billion for Treasury provides funding we need to support the core missions as identified in our new strategic plan—in promoting national prosperity through economic growth and job creation; maintaining public trust and confidence in our economic and financial systems; and ensuring the Treasury organization has the workforce, technology, and business practices to meet the Nation's needs effectively and efficiently. Two key strategic objectives are to collect Federal tax revenue when due through a fair and uniform application of the law and to disrupt and dismantle the financial infrastructure of terrorists, drug traffickers, and other criminals and isolate their support networks.

One historic change at Treasury in the past year has been the movement of most of the Department's law enforcement divisions—affecting some 30,000 employees—to the Department of Homeland Security and the Department of Justice. This

change has provided an opportunity for Treasury to refocus on its core missions as the Federal Government's economic policymaker, financial manager, and revenue collector. This puts us in a better position to fulfill our critical role in fighting the war on terrorist financing. In addition, the Department revised and completed a new strategic plan in September 2003. To complement this strategic planning initiative, the Department and many of the bureaus underwent a restructuring of their budget activities and programs—discontinuing enforcement programs which no longer fit into the Treasury strategic vision and developing new performance goals and measures focused on getting value for taxpayers. As a result of these efforts, our fiscal year 2005 request reflects significant reengineering and reprogramming to ensure efficient and effective use of our resources.

Mr. Chairman, we provided the Committee with a detailed breakdown and justification for President's fiscal year 2005 budget request for Treasury. I would like to take the opportunity today to point out some highlights of our request and then I'd be happy to take whatever questions you may have.

PROMOTING PROSPEROUS AND STABLE U.S. AND WORLD ECONOMIES

The aim of these strategic goals is to ensure that the United States and world economies perform at full economic potential. In order to perform at its full potential, the U.S. economy must increase its rate of growth and create new, high quality jobs for all Americans. Additionally, the legal and regulatory framework must support this growth by providing an environment where businesses and individuals can grow and prosper without being limited by unnecessary or obsolete rules and regulations. The Treasury Department and three of its bureaus, the Community Development Financial Institutions Fund, the Office of the Comptroller of Currency and the Office of Thrift Supervision play diverse roles in the domestic economy. From serving as the President's principal economic advisor to issuing tax refunds to millions of Americans, the Treasury has a significant influence on creating the conditions for economic prosperity in the United States. A prosperous world economy serves the United States in many ways. It creates markets for U.S. goods and services, and it promotes stability and cooperation among nations. For these reasons, the Department of the Treasury will work with other Federal agencies and offices to promote international economic growth and raise international standards of living through interaction with foreign governments and international financial institutions. Our budget requests \$158.9 million to support these strategic goals.

MAINTAINING PUBLIC TRUST AND CONFIDENCE IN OUR ECONOMIC AND FINANCIAL SYSTEMS

Treasury's mission of managing the U.S. Government's finances effectively is the bulk of the President's fiscal year 2005 request for the Department. The budget request of \$11 billion—the majority of which is for the Internal Revenue Service—will provide funds to ensure that the tax system is fair for all while maintaining high quality service to our taxpayers and ensuring compliance with the tax laws.

In past years, IRS's focus has been on improving customer service. We believe that we have been successful in that effort and are committed to further enhancing customer service for the vast majority of American taxpayers who do their best to pay their fair share. For those who do not, fundamental fairness requires that our enforcement efforts in fiscal year 2005 continue moving us towards a tax system in which everyone is complying with the tax laws. Our fiscal year 2005 request, which includes a net increase of \$300 million, will focus our resources toward enforcement initiatives designed to curb abusive tax practices, end the proliferation of abusive tax shelters, improve methods of identifying tax fraud, identify and stop promoters of illegal tax schemes and scams, and increase the number and effectiveness of audits to ensure compliance with the tax laws. This request will allow the IRS to apply resources to areas where non-compliance proliferates: promotions of tax schemes, misuse of offshore accounts and trusts to hide income, abusive tax shelters, underreporting of income, and failure to file and pay large amounts of employment taxes.

The President's request also provides \$285 million to continue our effort in modernizing the Nation's tax system through investments in technology. During the fall of 2003, the IRS performed comprehensive studies to review its modernization efforts. From these studies, the IRS has resized its modernization efforts to allow greater management focus and capacity on the most critical projects and initiatives. The IRS is also responding to these studies by increasing the business unit ownership of the projects and revising its relationships with the contractor and ensuring joint accountability. While the IRS has thus far failed to deliver several important projects with which taxpayers are not directly involved, it is important to note they have had some notable successes. The IRS has made progress on applications such

as improved telephone service and a suite of e-services to tax practitioners. For the first time, large businesses and corporations can electronically file. In addition, taxpayers can access refund and Advance Child Tax Credit information from the irs.gov website. The IRS's business systems modernization expenditure plan provides more detail on this request.

In addition, IRS will work to improve customer service by making filing easier; providing top quality service to taxpayers needing help with their return or account; and providing prompt, professional, improved taxpayer access and helpful treatment to taxpayers in cases where additional taxes may be due.

The provisions of the Trade Act of 2002 (Public Law 107-210) chartered the Treasury Department (through the IRS) with establishing and implementing a new health coverage tax credit program in 2003. This program provides a refundable tax credit to eligible individuals for the cost of qualified health insurance for both the individual and qualifying family members. The request provides \$35 million to continue implementation and operation of the Health Insurance Tax Credit Program.

The Alcohol and Tobacco Tax and Trade Bureau (TTB) was created when the Homeland Security Act of 2002 divided the Bureau of Alcohol, Tobacco and Firearms into two agencies. Our fiscal year 2005 request includes \$81.9 million for TTB: \$58.3 million to support the Collect the Revenue function, and \$23.5 million to Protect the Public, both of which will facilitate their efforts in collecting \$14.6 billion in revenue from the alcohol and tobacco industries and monitor alcohol beverages in the marketplace to detect contamination and adulterated products. Their focus this coming fiscal year is to promote voluntary compliance of existing regulations and to protect the consumer through efficient and effective service.

Key to the U.S. Government's management of financial systems is the Financial Management Service (FMS), whose mission is to provide central payment services to Federal program agencies, operate the Federal Government's collection and deposit systems, provide Government-wide accounting and reporting services, and manage the collection of delinquent debt. The fiscal year 2005 request of \$231 million for FMS includes legislative proposals to improve and enhance opportunities to collect delinquent debt through FMS' debt collection program. The proposals would: eliminate the 10-year limitations period applicable to the offset of Federal non-tax payments to collect debt owed to Federal agencies; increase amounts levied from vendor payments (from 15 percent to 100 percent) to collect outstanding tax obligations; allow the Secretary of the Treasury to match information about persons owing delinquent debt to the Federal Government with information contained in the Department of Health and Human Service's National Directory of New Hires; and allow the offset of Federal tax refunds to collect delinquent State unemployment compensation overpayments.

The Bureau of the Public Debt (BPD) continues its management and improvement of Federal borrowing and debt accounting processes. BPD will provide vital support to the processing of applications and the operation of systems used for re-enforcing its mission of providing quality debt management services to financial institutions, individuals, foreign governments, and over 200 government trust funds.

The activities of the United States Mint and the Bureau of Engraving and Printing (BEP) are vital to the health of our Nation's economy. These agencies share the responsibility for ensuring that sufficient volumes of coin and currency are consistently available to carry out financial transactions in our economy. Treasury, Mint and BEP will deliver a study to Congress regarding options to merge and/or streamline operations by consolidating certain functions and sharing costs between the Mint and the BEP.

FIGHTING THE WAR ON TERROR AND SAFEGUARDING OUR FINANCIAL SYSTEMS

Our goals in preserving the integrity of U.S. financial systems include ensuring that the U.S. financial system and access to U.S. goods and services are closed to individuals, groups and nations that threaten U.S. vital interests, ensuring that these systems are kept free and open to legitimate users while excluding those who wish to use the system for illegal purposes, and ensuring that the financial systems will continue to operate without disruption from either natural disaster or manmade attacks. To support such efforts, the President has requested \$250.9 million for fiscal year 2005.

The administration announced the creation of the Office of Terrorism and Financial Intelligence (TFI) within the Department of the Treasury on March 8, 2004. TFI will lead Treasury's efforts to sever the lines of financial support to international terrorists and will serve as a critical component of the administration's overall effort to keep America safe from terrorist plots.

The TFI, which will include Treasury's newly established Executive Office for Terrorist Financing and Financial Crime (EOTF/FC), will have policy oversight over the Financial Crimes Enforcement Network (FinCEN), the Office of Foreign Assets Control (OFAC), and the Treasury Executive Office for Asset Forfeiture (TEOAF). This will create a single lead office in Treasury for fighting the financial war on terror and combating financial crime, enforcing economic sanctions against rogue nations, and assisting in the ongoing hunt for Iraqi assets.

The Office of Foreign Assets Control (OFAC) is central to our efforts to disrupt financing of terrorist activities. Only days after September 11, 2001, OFAC drafted and implemented Executive Order 13224, which invoked Presidential authority contained in the International Emergency Economic Powers Act and froze the assets of 29 entities and individuals linked to Osama bin Laden and his al Qaeda network. Since then, OFAC research and investigation helped identify between 200 and 300 additional entities and individuals as Specially Designated Global Terrorists under the Order. Since September 2001, OFAC and our allies have frozen over \$136 million in terrorist assets and vested \$1.9 billion of frozen Iraqi assets.

The President's fiscal year 2005 request also includes \$64.5 million for the Financial Crimes Enforcement Network (FinCEN) to enhance its ability to fight the war on terror and combat financial crimes such as money laundering. Its mission to safeguard the U.S. financial systems from the abuses imposed by criminals and terrorists and to assist law enforcement in the detection, investigation, disruption and prosecution of such illicit activity is accomplished through its statutory role as the administrator of the Bank Secrecy Act (31 C.F.R.) FinCEN issues and enforces regulations that require a wide gamut of financial institutions to implement anti-money laundering programs and report transactions that are indicative of money laundering, terrorist financing and other financial crimes, thus providing a wealth of information to assist law enforcement, both domestic and international, in pursuing such crimes. FinCEN also ensures that the information collected under these regulations is made fully accessible to law enforcement and the regulatory community in a secure manner and provides both tactical and strategic analysis to a variety of customers. In addition, FinCEN is the Financial Intelligence Unit (FIU) for the United States and has been central in the development of a consortium of FIU's around the globe that permits fast and effective sharing of financial intelligence on an international scale.

The IRS's Criminal Investigative Division (IRS-CI) also plays a key role in investigating financial crimes. The request supports the unique skills and expertise of IRS-CI agents in investigating tax fraud and financial crimes not only support tax compliance, but also benefit the war on terror and our efforts to root out financial crimes.

In addition, the Office of Critical Infrastructure Protection and Compliance Policy leads our efforts to safeguard the financial infrastructure. This Office works closely with the Department of Homeland Security, other Federal agencies, and the private sector to safeguard our infrastructure. That is essential, given that the majority of the critical financial infrastructure of the United States is owned and operated by the private sector. The financial system is the lifeblood of our economy and this Office leads our efforts to keep it safe.

ENSURING PROFESSIONALISM, EXCELLENCE, INTEGRITY AND ACCOUNTABILITY IN MANAGEMENT OF TREASURY

The President has requested \$229.6 million for ensuring proper stewardship of the Department. Included in this request is \$14.2 million for the Department's Office of Inspector General (OIG) and \$129.1 million for the Inspector General for Tax Administration (TIGTA).

The 1988 amendments to the Inspector General Act of 1978 created the OIG to conduct audits and investigations relating to Treasury programs and operations; to promote economy and efficiency, and detect and prevent fraud and abuse, in such programs and operations; and to notify the Secretary and Congress of problems and deficiencies in such programs and operations.

The Internal Revenue Service Restructuring and Reform Act of 1998 created the Inspector General for Tax Administration (TIGTA) to oversee operations at the Internal Revenue Service (IRS). TIGTA promotes the public's confidence in the tax system by assisting the IRS in achieving its strategic goals, identifying and addressing its material weaknesses, and implementing the President's Management Agenda. Further, TIGTA undertakes investigative initiatives to protect the IRS against threats to systems and/or employees.

To maximize efficiencies and effectiveness, the administration has proposed to merge the Treasury Inspector General and the Treasury Inspector General for Tax

Administration into a new Inspector General office, called the Inspector General for Treasury. The new organization will have all of the same powers and authorities as its predecessors have under current law. We will work with the Congress to move this legislation forward.

Also included in this request is an increase of \$10.8 million for a host of modernization activities of our systems including IT Governance, E-Government, operational security, and Treasury enterprise architecture.

FOUNDATION FOR SUCCESS—THE PRESIDENT’S MANAGEMENT AGENDA

As mentioned earlier, following the movement of the law enforcement bureaus to the Departments of Homeland Security and Justice, Treasury restructured and refocused its strategic goals and objectives based on the five initiatives of the President’s Management Agenda (PMA). Treasury developed and issued its new Strategic Plan, which linked intricately with each of the five initiatives of the PMA. This new strategic vision, coupled with the efforts underway in the PMA, provides the mechanism and focus for continuous improvement throughout Treasury and its bureaus.

In fiscal year 2003, Treasury achieved many significant milestones in implementing the President’s Management Agenda. Specific accomplishments included:

- In the past 18 months, Treasury has drafted the first-ever Department-wide Human Capital Strategic Plan, which addresses the Standards for Success as issued by the Office of Personnel Management (OPM) and the Office of Management and Budget (OMB). Treasury incorporated human capital into its strategic planning and budget formulation and execution processes, and the plan will guide future efforts in areas such as workforce and succession planning, diversity, performance management, and managerial accountability.
- In competitive sourcing, Treasury completed 3 full competitions, over 20 streamlined competitions, and currently has studies involving approximately 4,500 positions in various phases of completion.
- In budget and performance integration, Treasury revised the performance reporting requirement to facilitate review and assessment of bureaus’ key performance data. Treasury also restructured some of the bureaus’ budget activities to reflect alignment with the new strategic plan and the full cost of achieving results.
- Treasury also maintained its government-wide lead in accelerated financial reporting. The Department implemented a 3-day monthly close and successfully issued its fiscal year 2003 Performance and Accountability Report on November 14, 2003, 2½ months ahead of the official deadline.

Treasury will continue to work closely with OMB and other stakeholders to make improvements in implementing the initiatives set forth in the President’s Management Agenda.

THE PRESIDENT’S SIX-POINT ECONOMIC GROWTH PLAN

At the beginning of my testimony I talked about what the Treasury Department does to support our strategic goal of encouraging a prosperous and stable U.S. economy. I would also like to talk about our efforts across the administration to promote economic growth as embodied by President’s six-point plan for growth.

That includes making health care more affordable with costs more predictable.

We can do this by passing Association Health Plan legislation that would allow small businesses to pool together to purchase health coverage for workers at lower rates.

We also need to promote and expand the advantages of using health savings accounts . . . how they can give workers more control over their health insurance and costs.

And we’ve got to reduce frivolous and excessive lawsuits against doctors and hospitals. Baseless lawsuits, driven by lottery-minded attorneys, drive up health insurance costs for workers and businesses.

The need to reduce the lawsuit burden on our economy stretches beyond the area of health care. That’s why President Bush has proposed, and the House has approved, measures that would allow more class action and mass tort lawsuits to be moved into Federal court—so that trial lawyers will have a harder time shopping for a favorable court.

These steps are the second key part of the President’s pro-jobs, pro-growth plan.

Ensuring an affordable, reliable energy supply is a third part.

We must enact comprehensive national energy legislation to upgrade the Nation’s electrical grid, promote energy efficiency, increase domestic energy production, and provide enhanced conservation efforts, all while protecting the environment.

Again, we need Congressional action: we ask that Congress pass legislation based on the President's energy plan.

Streamlining regulations and reporting requirements are another critical reform element that benefits small businesses, which represent the majority of new job creation: three out of every four net new jobs come from the small-business sector! Let's give them a break wherever we can so they're free to do what they do best: create those jobs.

Opening new markets for American products is another necessary step toward job creation. That's why President Bush recently signed into law new free trade agreements with Chile and Singapore that will enable U.S. companies to compete on a level playing field in these markets for the first time—and he will continue to work to open new markets for American products and services.

Finally, we've got to enable families and businesses to plan for the future with confidence.

That means making the President's tax relief permanent.

Rate reductions, the increase in the child tax credit and the new incentives for small-business investment—these will all expire in a few years. The accelerated rate reductions that took effect in 2003 will expire at the end of this year. Expiration dates are not acceptable—we want permanent relief.

The ability of American families and businesses to make financial decisions with confidence determines the future of our economy. And without permanent relief, incentives upon which they can count, we risk losing the momentum of the recovery and growth that we have experienced in recent months.

The tax relief is the key stimulus for increased capital formation, entrepreneurship and investment that cause true economic growth.

CONCLUSION

Mr. Chairman, I look forward to working with you, members of the Committee, and your staff to maximize Treasury's resources in the best interest of the American people and our country as we move into fiscal year 2005. I am hopeful that together we can work to make this Department a model for management and service to the American people.

Thank you again for the opportunity to present the Department's budget today. I would be pleased to answer your questions.

ECONOMY AND JOBS

Senator SHELBY. Thank you, Secretary Snow. You referenced economic growth. Last month, you stated 308,000 jobs were created. That was robust.

I have been told that up to 50 economists are predicting an average of about 180,000 new jobs a month for the next 6 or 7 months. Some months might be smaller and some months larger than others. That is good news. Do you believe that is going to happen?

Secretary SNOW. Senator, I have seen those estimates. I think they are well supported and well reasoned estimates. And yes, very definitely, I think this economy will produce lots of jobs in the months ahead.

Senator SHELBY. If we could create 1 million new jobs or so in the next 6 or 7 months, it would be good for America and good for workers, would it not?

Secretary SNOW. It would be tremendous. It is what always occurs in a recovery, and the very fact that additional jobs come on stream helps the recovery to gain even further momentum.

Senator SHELBY. Later today, in the Banking Committee, among other people, we will have Chairman Greenspan testify, and we will talk about the economy and the state of the banking community.

Are you concerned about inflation at all at this point?

Secretary SNOW. Mr. Chairman, not at this point I am not. I see the economy continuing to operate with lots of headroom to grow

in a non-inflationary way. We still have considerable unused capacity in our factory and manufacturing systems. Real wage rates have only begun to move up a little bit. We still have unemployment higher than it should be.

So we still have lots of unused resources in the economy that can be put to better use. And we live in this global economy where competition is ever present and affecting prices in the United States. And few executives who you talk to feel they have real pricing power.

No, I think we have a lot of headroom to grow without inflation rearing its head.

Senator SHELBY. Mr. Secretary, how important, in your judgment, is making the tax cuts permanent?

Secretary SNOW. Mr. Chairman, I think it is absolutely critical. I think the evidence is clear that the tax reductions that Congress enacted last year have made this strong recovery possible.

Senator SHELBY. It has put money in people's pockets, their money, has it not?

Secretary SNOW. That's what it is about.

Senator SHELBY. Let them keep the money they have earned.

Secretary SNOW. And when they keep the money they earn, good things happen. They do good things with it. They spend it. And as they spend it, then businesses around the country find that they need to replenish their inventories. Their shelves are coming down. And that leads to demand for their suppliers, and so on and so forth. So good things happen when people have more money to spend.

Senator SHELBY. Mr. Secretary, a lot of people have characterized the tax cuts that we pushed through, and I certainly voted for every one of them, as tax cuts for the rich. But I do not buy that. I believe that it was a tax cut for everybody who works, in a sense, and it also eliminated taxes on a great portion of people where they pay hardly anything. Is that correct?

Secretary SNOW. You are absolutely correct, Mr. Chairman.

TERRORIST FINANCING

Senator SHELBY. I want to discuss terrorist financing. In fiscal year 2004, the Congress provided \$3.5 million more than the budget request to fund and establish the Executive Office for Terrorist Financing and Financial Crimes (EOTF/FC) at Treasury. Would you update us on the creation of that office and explain how that office will mesh with the Office of Terrorism and Financial Intelligence (TFI) that you are proposing to create?

Secretary SNOW. Yes, Mr. Chairman, and thank you for the opportunity to do that.

The Office of Terrorism and Financial Intelligence (TFI) is just now being set up. It will be headed by an Assistant Secretary who will be responsible for making sure that the Treasury Department has access to the intelligence being gathered across this government and across other governments, and has the intelligence it needs to carry out its role, its critical role.

So more priority on financial intelligence. There is lots of intelligence being gathered. We want to see more priority on the financial side.

Senator SHELBY. Is Treasury not central to all of this?

Secretary SNOW. I think Treasury is right at the center of it. It has to be.

Senator SHELBY. It is your obligation.

Secretary SNOW. It is our obligation. We have the authorities from the Executive Orders of the President, implementing the statutes that you have passed. Treasury has the expertise, knowledge of the financial systems of the United States, knowledge of the people in the financial system of the United States, and knowledge of the international financial system.

The office you mentioned will be headed by an Assistant Secretary for terrorist finance and will be responsible for giving broad policy direction to OFAC and FinCEN and overseeing the National Money Laundering Strategy (NMLS) and overseeing our relationship with the international institutions that are engaged in the global war on terrorist finance.

Senator SHELBY. Will Treasury share with the FBI and CIA and others, without impediment, the information that is central to terrorist financing?

Secretary SNOW. Absolutely.

Senator SHELBY. Because you notice with the 9/11 Commission and others, one of the problems is the lack of sharing information. If you do it begrudgingly, it is not timely and it does not work.

Secretary SNOW. Mr. Chairman, I will pledge that we will share the information that we gather. And by having a senior-level Senate confirmed person sitting at the table with the other intelligence gathering agencies, we will see that Treasury's priorities are given appropriate attention.

Senator SHELBY. How will this office interface with the Executive Office for Terrorist Financing and Financial Crimes and with the Bureaus at Treasury? Are you going to integrate this where we have some type of sharing or analysis center?

Secretary SNOW. Mr. Chairman, the two offices will be headed by a new Under Secretary. It was contemplated in the legislation Congress passed last fiscal year, for which I am very grateful. The Under Secretary will be the senior official in the United States Government on financial terrorism, will coordinate all the activities in Treasury, and be our point person. We will now have one person I can turn to and hold accountable for all of these activities. We have identified a first-rate individual to be the Under Secretary whose name I think will be released, or has very recently been released, for confirmation.

Senator SHELBY. With the new office, how will the Treasury function better than before?

Secretary SNOW. Yes, exactly. We did not have either the Under Secretary or the Assistant Secretary for Intelligence.

Senator SHELBY. Mr. Secretary, we all support resources and methods to fight terror financing because it goes to the heart of it. I am concerned that the Treasury may have abdicated, in certain areas, its statutory responsibility and missions relating to terror financing to other Federal agencies.

I am also concerned, Mr. Secretary, that in the void, other Federal agencies are establishing or enhancing capabilities that dupli-

cate what Treasury should be doing, and could lead to further interagency communication problems in the future.

COORDINATION WITH HOMELAND SECURITY

Besides establishing a new office, what is the Treasury Department doing that the Homeland Security Department does not in this regard?

Secretary SNOW. We coordinate very closely with Homeland Security. I can see why it might appear to be duplication. But in reality, we have different roles to play, different core functions.

Treasury's function is to play the lead in all relationships with financial institutions.

Senator SHELBY. The primary responsibility is Treasury's.

Secretary SNOW. Primary responsibility is Treasury's to play the lead in the money laundering, in the enforcement of the Bank Secrecy Act, in the bank and financial institutions knowing their customers, and in reaching out to all segments of the financial community. Now it is including jewelers and credit card companies and insurance companies—wherever money could be laundered or moved.

Senator SHELBY. On the Homeland Security web page, Secretary Ridge is quoted as saying "safeguarding the integrity of America's financial systems is a key part of Homeland Security."

It seems to me that that is Treasury's mission. Are we duplicating this? And if so, what we are what are we going to do about it?

Secretary SNOW. I think what Secretary Ridge has in mind, in saying what he said, is to underscore the role they have which is protection of a physical sort, physical protection. But Treasury's role is the financial war on terror.

But if a building is going to be penetrated by a terrorist, a bomb is going to be dropped, an explosive device is going to be detonated in a banking center, that would be properly their responsibility.

But if it is penetrating the financial system, if it is the flow of money through the system, if it is interdicting those flows, then Treasury clearly has the lead.

Senator SHELBY. Treasury is going to keep that lead, are you not?

Secretary SNOW. Absolutely.

Senator SHELBY. You are going to fight for your turf, I hope.

Secretary SNOW. We are going to play the role you have assigned us and the President has assigned us. Yes sir, Mr. Chairman.

Senator SHELBY. Senator Murray.

OUTSOURCING

Senator MURRAY. Thank you, Mr. Chairman.

Mr. Secretary, as I mentioned in my opening statement a recent private sector survey revealed that 86 percent of the companies questioned expect to expand the use of offshore IT outsourcing over the next 12 months. When that same question was asked of companies just 2 years ago the number was only 32 percent.

My home State of Washington has an extraordinary number of IT specialists who are now suffering as a result of this downturn in the industry. Is the Treasury Department monitoring this situa-

tion and the potentially explosive growth of outsourcing in certain select industries?

Secretary SNOW. Senator Murray, I have seen some studies on this and try and keep myself apprised to the extent I can in the area.

Unfortunately the data is not all that we would like it to be on that score and we get different analyses and different estimates. I think the Commerce Department and the Labor Department are in a better position to talk technically to what the data shows.

But what I have seen from the various surveys, Forrester Group I think is the one that is doing the study you are referring to, so far the effects have been relatively—that is relative to the total number of jobs that are being created in the United States economy. And the displacement rates are fairly small.

Senator MURRAY. What other industries do you think, besides IT, might experience this outsourcing?

Secretary SNOW. Well, I guess we have seen radiology outsourcing. I think Massachusetts General Hospital is getting X-rays read overseas. Medical, health care, service industries, I am told, and telecommunications.

Senator MURRAY. What is the Bush Administration doing to try and stem the fund of jobs that our country is losing?

Secretary SNOW. I think the best thing we can do, and of course we do not want to see any jobs lost anywhere, is to keep the American economy as vibrant and strong and creative as possible so that we are continuously creating as many new jobs, and good new jobs, jobs that point to careers, as we possibly can.

Senator MURRAY. It is fine for economists and policymakers to argue back and forth over whether our country gains or benefits from outsourcing, but one thing that really is forgotten in this debate a lot is the people and the families that have lost their jobs.

I recently read about a 40-year-old woman in Seattle whose name is Meara Bronstein. She worked at an IT job at a company called Watchmart Corporation. She worked there for 2 years. And one day she said that her entire department was informed that they would be laid off in a month. And worse, they were told they had to train their Indian replacements or lose their severance package.

She is still without work after 10 months and her unemployment benefits just ran out. These are her words, let me read them to you. She says “my life has changed drastically over my 10 months of unemployment. I have cashed in my 401(k), can no longer afford health insurance and can just barely pay the rest of the bills. I have even resorted to selling a number of my things on eBay to get money for essentials. I think that my biggest struggles throughout this experience are the constant feelings of powerlessness and paralysis. I did everything I could to succeed. I got a good education. I paid off big student loans. I worked hard at my job. But now I realize that it does not matter what I do to make myself a marketable employee if there are no policies in this country to protect our jobs from being sent overseas to someone who will work for 1/16 of the price. I cannot compete with that. You could say that I woke up from the American dream.”

What you say, Mr. Secretary, to someone like that?

Secretary SNOW. Obviously, Senator, your heart goes out to anybody who finds themselves in those circumstances. Those are dreadful circumstances for anybody to find themselves in.

Two things I think we can say. One is that we live in the most dynamic economy in the world. We live in an economy that is continuously changing, an economy in which there is continual regeneration going on, which means displacement is continuously occurring. There are about 40 million new jobs created every year in the United States. And there are roughly 40 million people displaced from their old jobs. So we have this extraordinarily dynamic economy.

What I think we need to do, and it is why those tax cuts were so important, is continuously focus on making sure aggregate demand is large enough to support employment for everyone.

OUTSOURCING AND JOB DISPLACEMENT

Senator MURRAY. But if you are an IT person today, you cannot become a nurse tomorrow.

Secretary SNOW. I understand that, Senator. And the second part of the answer is we have to make sure, I think we have an obligation in an economy that is changing as fast as this one, because remember a lot of people are getting displaced not because of contracting out or foreign competition. They are getting displaced because of domestic competition.

We have to make sure that opportunities for skills development and retraining and education are widely available.

Senator MURRAY. So you would say investing in those are critical?

Secretary SNOW. Yes, I do. I think investing and making sure people have easy access to low-cost ways to acquire the skills to give them the jobs of the future is an obligation we must take on.

Senator MURRAY. What about bridges like unemployment compensation for people like that?

Secretary SNOW. Yes, absolutely there is a role for that.

Senator MURRAY. Mr. Secretary, one of the provisions that were included in last year's appropriations bill was a prohibition against using fiscal year 2004 funds to contract out any Federal job overseas. To my shock, the President's budget specifically requests that this provision be deleted from fiscal year 2005.

Mr. Secretary, could you cite for me some instances at the Treasury Department where you might work that is currently being conducted by Federal employees and send that work overseas?

Secretary SNOW. Senator, I am not aware of any.

Senator MURRAY. Then tell me why the President wants us to grant him authority to move Federal jobs overseas?

Secretary SNOW. Senator, I am not familiar with the background to that provision. I am sure somebody at OMB or DOD could talk about it better. I am just not knowledgeable enough to offer you a thoughtful opinion on that.

Senator MURRAY. But you have no jobs in your department that you—

Secretary SNOW. Not that I am aware of and I will check—

Senator MURRAY. So you would not object to us putting that provision in the bill?

Secretary SNOW. Well, there may be reasons beyond the Treasury Department. We are only a small part of this government. And there may be some compelling rationale in some other department for some access to that. But I am not aware of any at Treasury.

Senator MURRAY. I know a lot of the comments have gone back and forth over this issue about whether outsourcing American jobs is beneficial to the economy but there is a different question that surrounds this issue that I want to take a second to discuss with you. And that is the question of whether it is ethical and patriotic to send these American jobs overseas.

Many of the companies that are sending these jobs overseas, for the longest time benefited by being American companies. And they have benefited from being part of the most vibrant economy in the world. They have benefited from our substantial investments by us as taxpayers in our national defense, in our tax structure, in innovation and commitment of the American people.

We can disagree on the issue of whether it is good economics to ship the jobs overseas, but I still do want to ask you this today. Do you think these companies that have benefited from the American experience for so long and are now shipping American jobs overseas are operating in an ethical manner? Is there anything we or they owe these American workers?

Secretary SNOW. Senator, the management of America's companies have a fiduciary duty to their shareholders. And that fiduciary duty, which they must under the law take seriously, and when they do not, we get into things like the Enron scandals. They have a fiduciary duty to pursue the best interests of their owners and that means staying competitive and producing good products and producing them at low-cost.

So the first responsibility of management is in an ethical way to pursue the best interest of their shareholders.

Senator MURRAY. Over the best interests of taxpayers that have invested in investments that make them profitable today?

Secretary SNOW. I am not sure there is a conflict there, Senator. If American companies do not stay competitive, then they are going to have a hard time creating good American jobs and competing effectively, and of course a lot of competition comes from firms that are located outside the shores of the United States. If they cannot stay competitive with those enterprises, they are going to cede market share to them, cede revenues to them, and ultimately America's ability to create good jobs here with high standard of living will be eroded.

Senator MURRAY. Mr. Chairman, I am not sure I would agree but I know my time is up at this point. So I will move on and wait until my second round.

Senator SHELBY. Senator Bennett?

ACCESS TO OVERSEAS MARKETS

Senator BENNETT. Thank you, Mr. Chairman.

I do not want to go too deeply into this but I am stimulated by Senator Murray's questions. And my thoughts go to Dell Computer, a company that has been attacked for making a number of their purchases overseas. And they make a huge amount of sales overseas.

And at least the Dell management says if we were not able to buy at a world price the components that we put into Dell Computers, which are assembled in the United States and then shipped overseas, we would lose the American jobs that we now have. That is, we are indeed contributing to jobs overseas by purchasing overseas. But the people who assemble the Dell Computers, who run the company, who do the accounting, all of whom are American who work in America, would lose their jobs if we did not have access to the overseas markets, which access is controlled by our ability to purchase at lower prices.

I do not like the word "globalization" because I think it carries connotations with it that have taken on emotional baggage. I think the correct description of the world in which we live is a borderless economy. And the biggest, meanest, toughest competitors in the borderless economy are the Americans. So I do not want to pursue policies that would hurt America's ability to compete in the borderless economy because the net effect of that ultimately will be the destruction of more American jobs than those that are currently gone overseas.

TREASURY BUDGET INCREASE

But let us move on to the items that we are discussing here. You talk about your budget being essentially static, but the overall increase is 4.5 percent. The President is trying to hold discretionary spending at 4 percent. Homeland Security is going up substantially more than 4 percent. I am really asking questions that Chairman Stevens would be asking.

But as we look at the overall attempt on the part of the President to deal with the deficit by holding discretionary spending at a relatively low level, at the same time funding Homeland Security, increase funding for education and some of the other areas where he has gone well above the 4 percent. We have got to find less than 4 percent some other places.

I guess I am overly sensitive to this because as Chairman of the Agriculture Subcommittee, I find mine going negative. I would love to stay stable, but I am being pushed on the President's budget \$500 million below last year, and last year was \$1 billion below the year before.

So as I come to this subcommittee and see you going up a little, you say basically static. I would like you to highlight the areas where there are increases that take you to that 4.5 percent global number going up.

Secretary SNOW. The principal area where we are going up is IRS enforcement. That is over \$300 million—it is about 10 percent of their enforcement budget increase. And that is to make sure we are enforcing the code fairly and effectively in some areas where questions have arisen, questions about tax schemes, fraudulent tax schemes, abusive tax schemes used by wealthy people, promoted by tax promoters to corporations and wealthy people.

There appears to be, according to statistics we have, a growing belief in the public that the code is not being effectively enforced and that people can get away with it. That is a serious issue of citizenship, and we cannot let that idea take hold.

And I think we are leaving a lot of money on the table.

RETURN ON INVESTMENT

Senator BENNETT. That was going to be my next question. Have you done any studies to see what the return on that investment might be? Could we look forward to recovering, by virtue of increased enforcement, enough money—it does not show up in the way we do it here on the appropriations—but looking at your level, would the Treasury have any possibility of recovering more money than the enforcement money coming in? In other words, get a significant return on that investment?

Secretary SNOW. Senator, I cannot prove it, but I think it is the case and I think it is worth trying.

Senator BENNETT. Are there any studies?

Secretary SNOW. There are studies that suggest, and these you have got all to take with a grain of salt, that there is a so-called tax gap of a couple hundred, \$250 billion I have seen. We are asking for \$300 million more in enforcement.

Senator BENNETT. Three hundred million dollars, not \$300 billion?

Secretary SNOW. Yes, against a \$250 billion tax gap.

I am alarmed about some of the tax schemes I see out there, and unless we can catch them in the bud, are going to erode the revenue line of the Federal Government. There are some really abusive practices out there that we have to get at. The budget here provides resources to go after those really abusive tax schemes.

I have asked the head of the IRS, a very able fellow named Mark Everson, to give me a report on what comes out of the \$300 million so that when we go to OMB next year, and come before you, we are going to have some idea of that, and not just something we pull out of thin air.

I think right now while they do so—they call them ROI analyses, return on investment analyses. I think they are good efforts, but I would not bet the farm on them.

IRS INFORMATION TECHNOLOGY INVESTMENT

Senator BENNETT. Okay. And finally, I made reference to this in my opening statement.

What is the status of the entire IT effort in the IRS? The complete collapse that we saw in the 1990s, the effort of the last IRS Commissioner under the Clinton Administration—I am trying to remember his name.

Secretary SNOW. Charles Rossotti.

Senator BENNETT. Rossotti. He was a very impressive fellow, as he tried to get his arms around that and deal with that. What progress have we made on that in the intervening years?

Secretary SNOW. I think Commissioner Rossotti brought a tremendous amount of good management to the IRS and helped put it on a good path. But it is no secret that the IRS technology modernization has not been a model of success. And it has come in consistently over budget and behind the timelines. It may have been because our reach exceeded our grasp. We tried to take on too much.

This year's budget on the modernization side, the technology side, is pared back significantly. It is about \$100 million, but fo-

cused on more discreet and deliverable outcomes. And it is getting intense management from IRS Commissioner Everson, from Deputy Secretary Bodman and from me, because we cannot afford not to have these systems proceed the way they were supposed to proceed, because they are the foundation for all of our tax collections.

I think of this, Senator, in terms of a first-rate credit card company. That first-rate credit card company knows how much you owe them. They know when you made your last payment. They know what the interest due is. They know how to get a hold of you. They have got all of your payment records. That is where we need to go. And the efforts that are underway are to put us in a position where in the future we will be a counterpart, the IRS, which is a scale that is way beyond any credit card company. But it would have that capability, closer to the capability you talked about in your opening statement.

Now there has been some real progress made. This year some 50 million Americans are going to do e-filing. That is made possible by these modernization systems. You can now go to IRS.gov, and hit "Where is my refund?", and get good information on how to go about getting the status of your refund. That is real progress from where we have been.

These e-services, including online tax identification numbers, are becoming more readily available. Some significant number of small businesses are now able to go online and file their taxes.

We are a long way from being where we need to be and I think the IRS is approaching this in a more realistic way, by taking smaller bites at the apple, and making sure that the bites are digestible.

Senator BENNETT. Thank you.

Senator SHELBY. Senator Dorgan.

OFFICE OF FOREIGN ASSETS CONTROL (OFAC)

Senator DORGAN. Mr. Chairman, thank you very much.

First, Mr. Secretary, I said good things when the President selected you. I like you. I think that you are a good Secretary of the Treasury and I remain pleased that I supported your confirmation.

Secretary SNOW. Thank you, sir.

Senator DORGAN. Having said that, we disagree on some policy issues, as you might well imagine. And I do want to ask you some questions about fiscal policy because I was really intrigued by a couple of your answers, both to my colleague from Utah.

And incidentally, with respect to that subject, the question of a U.S. firm that moves overseas to sell back into the United States is a construct that is slightly different than the one the Senator from Utah posed. I would like to ask about that, as well.

But having said that, I want to ask you a series of questions that I asked Secretary O'Neill before he left, and it deals with travel to Cuba.

I am going to tell you something. I am embarrassed at the public policy of this country and furious with what is happening at OFAC. So I wanted to say nice things before I described to you my concern about this.

Let me hold up a couple of these charts, if I might. Let me hold this one up, first.

This woman is Joanie Scott. She traveled to Cuba 4½ years ago to distribute free Bibles and help organize a prayer group. Four years later she received a fine, just recently, from the U.S. Treasury Department for \$10,000. She went to distribute free Bibles in Cuba.

Let me show you another one. This is Joan Sloate. She is 74, a grandmother. She is a senior Olympian bicyclist. She went to ride her bicycle in Cuba. And OFAC fined her and, in fact, has attempted to take her Social Security payments in satisfaction of the debt. So that is Joan Sloate. I have met Joan Sloate, but I do not know her well.

Let me describe another one. This is a group of Olympians and they are disabled. And they are out \$8,000 in their attempt to travel to Cuba to participate in the team sports—the World Team Sports for Disabled Americans was abruptly cancelled despite the fact that they had been allowed to do that previously. It was abruptly canceled. They are out \$8,000. Many of these athletes have lost the money they paid on non-refundable flights to Miami.

This is what is going on in OFAC. And there are more.

Doctors, incidentally, have just been told by OFAC that they cannot go to Cuba and lecture and train Cuban doctors because the physicians in this country who have been doing that, to lecture and train Cuban doctors, that is an export of services to Cuba and Treasury says they are prohibited from exporting a service such as teaching Cuban doctors such things as strokes and comas.

You were just in Miami. Asa Hutchinson was in Miami December 10. He gave a big old speech about this. And then you followed him in Miami on February 9, gave a big old speech, and both put out press releases about how you were cracking down on all of this.

And my understanding is that you are, at OFAC and also in Transportation Security and Homeland Security, you are working with Customs agents and OFAC on all direct flights from Cuba from Miami, JFK, Los Angeles, hundreds of aircraft, tens of thousands of passengers—I am now quoting you—and the agents are being extremely meticulous.

So apparently the results of that so far, as reported by Homeland Security, 215 of 45,000 travelers were suspected of attempting to vacation—that is a pretty serious crime. Two hundred eighty alcohol and tobacco violations were uncovered. Actually this was almost exclusively a small amount of cigars. Forty-two narcotic seizures, and these all involved prescription drugs, not heroine for example. And one hazardous material violation, which appears to have been carbon dioxide for adding fizz to seltzer water.

So we are trying to track terrorists in this country and you have an organization called OFAC. I used to chair this subcommittee and I asked hard questions of Secretary O'Neill. I do not see any excuse for one person at OFAC to be doing what they are now doing.

I know you are required to do it because the President and the White House and others are sending you to Miami to give speeches and ramp up this enforcement.

OFAC RESOURCES

But I am going to tell you something. I am going to offer again an amendment to strike the money for the people that you have got doing this. You know and I know that the issue of travel to Cuba, eliminating the travel restriction, would pass easily in both the House and the Senate. And trying to slap Fidel Castro around, which is probably a pretty good thing to do in my judgment, but doing so by injuring the right and the freedom of the American people to travel is an outrage. Fining somebody who is distributing free Bibles in Cuba is a shame.

So Mr. Secretary, what I would like to do, I am sorry you had to listen to a lecture about that but it is the only opportunity I have.

I am going to ask you to identify for me, in a submission to this subcommittee, the amount of resources that OFAC is now using, the number of people, the number of dollars, the amount of time to engage in this approach, to chase women who are distributing free Bibles in Cuba, to chase retired women who are bicycling in Cuba, to try to stop doctors who would teach Cuban doctors about stroke and comas and so on.

And then I will tell you that I will be asking if we can have an amendment and have a vote on the amendment about whether that is an effective and an appropriate use of resources.

It would be unfair for me not to allow you to respond, to give the standard response to this. But Mr. Secretary, go ahead.

Secretary SNOW. Thank you, Senator.

I know how strongly you feel on this issue, from our correspondence.

What I would say is that in those areas that you elaborated, humanitarian aid, education, travel, medicine, religious efforts, my understanding is that licenses are available and the problem is that people are going without getting the appropriate licenses. Maybe we need to do a better job of simply making clear that people can go if they have the appropriate licenses.

I hope OFAC, and I am going to check on this when I get back to Treasury, is putting appropriate resources into making available knowledge of when such travel is appropriate pursuant to the appropriate license.

[The information follows:]

RESOURCE INFORMATION

OFAC's Salaries and Expenses for fiscal year 2004 enacted budget is \$21.726 million and 138 full time equivalent (FTE) level. Currently, the total amount of funds directly attributable to the Cuba sanctions regime is \$3.3 million. OFAC has the equivalent of 21 FTEs who work on a wide variety of Cuban embargo matters, including travel-related matters. Supervisory personnel are also actively involved in the process.

LICENSING INFORMATION RESOURCES

Treasury's Office of Foreign Assets Control (OFAC) has taken measures to make information available to the public concerning the U.S. policy with respect to travel to Cuba. They have published a brochure entitled "Cuba: What You Need to Know About the Embargo," which is available through their fax-on-demand service and on their Internet website at www.treas.gov/ofac, that provide information in lay terms. This brochure summarizes the most salient features of the sanctions program, including the travel provisions. There is also a separate two-page brochure, in both

English and Spanish, covering just the travel restrictions and licensing provisions. There are also approximately 200 travel and carrier service providers authorized to engage in transactions with Cuba to make travel arrangements for licensed travelers. OFAC's Miami office provides training and ongoing guidance to the service providers who pass on information about U.S. Government requirements for travel to Cuba.

Last year, OFAC's Licensing Division issued "Comprehensive Guidelines for License Applications to Engage in Travel-Related Transactions Involving Cuba" which is available on OFAC's website. The Application Guidelines have an introduction discussing the policy surrounding travel to Cuba, including statutory restrictions limiting travel licensing to 12 categories of activities, information on what is covered under each licensable category of travel, and information to applicants of what information should be furnished in the application in order to receive a license. For each category of travel, the Application Guidelines provide examples of activities that are licensable and not licensable in order to give applicants an idea of what would be appropriately within the scope of current U.S. policy with respect to travel to Cuba. The Licensing Division also has information in the travel advisory on Cuba that the State Department makes available in its travel advisory system where information is provided to the public covering most countries of the world.

Senator DORGAN. Mr. Secretary, in fact it is not the case that those activities are acceptable and approved by the Treasury Department. I mentioned to you the circumstance of the disabled athletes. They were specifically denied the opportunity to travel, despite the fact that they had been allowed to travel previously.

I mentioned that the physicians, who have previously gone to Cuba to teach and to lecture, are now told that constitutes the delivery of a service to Cuba, which is not legal and therefore will not be allowed.

So my point to you is, while I think most people believe this travel research is being administered reasonably, it is not the case that humanitarian activities, educational activities, medical activities and others is routinely excepted.

There is in this administration, both at the State Department and in other areas and at OFAC, and it is trumpeted in press releases from your office as well as Asa Hutchinson and Homeland Security, that there is this crackdown.

And the other point of it is that we have apparently people checking every passenger on every plane. And I am going to spend a little time trying to determine whether we are doing quite as much to try to keep terrorists out of the country as we are to try to keep a few cigars out of the country. I do not know quite how I will get to all of that.

My only point to you this, I hope you will look into that because I think you have an understanding that is different than is actually occurring with respect to OFAC.

But my point is I think this policy is bad policy and things have changed dramatically in the crackdown with respect to trying to injure the American people who in many cases—the young woman who took Bibles to Cuba did so 4½ years ago. She did not have the foggiest idea she needed a license. So she apparently made a mistake, the mistake of taking free Bibles to distribute in Cuba. Now she is being slapped with a \$10,000 fine.

Mr. Chairman, I had indicated that I wanted to ask a couple of questions about fiscal policy. I will wait for another round, if that is appropriate.

PUBLIC POLICY ON TAX CODE

Senator SHELBY. Okay, thank you, Senator Dorgan.

Secretary SNOW, let me offer a comment to your exchange with Senator Murray a few minutes ago. I think there is a big difference, and I would hope that you would agree with me, about the fiduciary duty that an executive of a company owes to the stockholders. We know who owns the companies: the stockholders own the companies. Management does not own companies. And they did have a duty, I totally agree, to enhance profits to make money. That is why they are created, primarily.

But making public policy is a totally different thing from that responsibility. I think you are dealing with apples and oranges.

If we have a tax policy that encourages our companies to go overseas, I think that is bad public policy. I understand we have to trade. We have got to trade; it is a two-way street.

I would like to see us make public policy in our tax code that would encourage people to invest here rather than overseas, as I think do most people. I do not know how you feel about that, but that is my own observation.

Secretary SNOW. Senator, we have incorporated in this year's proposals that we have sent to the Congress, some efforts to deal with tax havens, with the interest stripping provisions which create the juice in the transactions that take firms to these tax havens, and so on. So I agree broadly with what you say, that the tax code certainly should not encourage that sort of activity.

COORDINATION WITH HOMELAND SECURITY

Senator SHELBY. I want to touch again on Homeland Security. I am looking at a statement sent out by the Department of Homeland Security, by Secretary Ridge.

Among other things, he said under the SHARE program, which is the Systematic Homeland Approach to Reducing Exploitation Program, officials from ICE will be joined by the Secret Service to jointly conduct semiannual meetings with the executive members of the financial and trade communities impacted by money-laundering, identity theft and other financial crimes to share data on specific investigative outcomes from investigations into money-laundering, identity theft, and other financial crimes.

Now, you are not ceding any of your jurisdiction to Homeland Security by what they do? You are trying to coordinate with them—is there not a difference here?

Secretary SNOW. Absolutely, and we coordinate very closely through intergovernmental task forces. And I think the roles really are well understood.

Our primacy comes with respect to the national money-laundering strategy. It comes with respect to enforcing the various provisions of the Bank Secrecy Act and the executive order dealing with terrorist finance.

Senator SHELBY. Also, from your statutory authority over the financial institutions.

Secretary SNOW. And the statutory authority over financial institutions. And that Treasury chairs the President's Working Group on Financial Institutions which is the Federal Reserve and the Se-

curities and Exchange Commission (SEC) Chair and the head of the Commodities Futures Trading Commission. And where necessary, we will share information with—and desirable—with the Department of Homeland Security (DHS). But their role is really different. Ours is more the broad policy, implementing those statutes and executive orders, interdicting the flow of money, and making sure that banks know their customers. Making sure that the information is being shared, and that we get through our databanks at FinCEN, with local, State and other Federal authorities.

DHS has an important role to play, but it is a different role.

EARNED INCOME TAX CREDIT (EITC)

Senator SHELBY. Mr. Secretary, I want to discuss the Earned Income Tax Credit (EITC) for just a minute. We have been told by the IRS Commissioner last year that there are a lot of erroneous and fraudulent EITC claims that are estimated to cost the government between \$8 billion and \$10 billion annually.

We all want people who would qualify for this benefit to get it. But where you are duplicating the benefits, it seems to me that the IRS and Treasury are in dire need of some kind of systems reform to be able to check who is doing what.

You referenced some of the financial institutions. If it were American Express or any of these credit card companies, they certainly would cross-reference everything. I cannot imagine them letting happen what is happening with EITC claims.

Are you interested in more money to go after cheats and fraudulent things? Heck yes, and we want to make sure you do it. But you are sitting on tons of money if you would do your job properly. Not just you, but others at the Department.

And if we are losing \$8 billion to \$10 billion a year because of fraud or fraudulent and erroneous claims, something is wrong, big time. And we are talking about billions, not hundreds of millions.

Secretary SNOW. Senator, there is something wrong here.

Senator SHELBY. What are you going to do about it?

Secretary SNOW. We are engaged in some pilot projects right now to try to figure out what to do about it, to be honest with you, because we do not have all the answers readily at hand.

Senator SHELBY. Have you thought about outsourcing this? Private-sector banks that do this every day are getting consultants in there. We can not afford to wait 2 years from now for answers and have the same rate of fraudulent and erroneous claims that you had 2 years ago.

Secretary SNOW. I think we can fix this, but this is an extraordinarily complex program where—

Senator SHELBY. But complexity does not mean you cannot run it with integrity.

Secretary SNOW. We can run it and we will. The key to it is getting eligibility criteria well-established so the people who are eligible get the payments.

Senator SHELBY. Absolutely.

Secretary SNOW. And those who are not do not. And unfortunately, these error rates are just extraordinary.

Senator SHELBY. Let us stop a minute.

How are you going to come about with the eligibility criteria that you need?

Secretary SNOW. By getting databases that tell us when two people not living in the same household are claiming the same child. And that is happening.

Senator SHELBY. Looks like a computer or good software system could do this for you. That is what we have been told.

Secretary SNOW. We are doing pilot projects right now to try and get at that very problem. A lot of the cost of this program, and it is a shame for the eligible participants who were properly getting the checks, is we do an extraordinary amount of post-audits and burden people who are properly getting the monies with post-audits and are sending checks to a lot of people who do not deserve the checks.

I do not know whether it is fraud as much—there is probably some in this.

Senator SHELBY. But it is wrong.

Secretary SNOW. It is just wrong. It is errors—mistakes and errors.

Senator SHELBY. Let us say it is not fraud, but it is erroneous and the people mean well. You need the criteria to separate what is the real from the apparent, do you not?

Secretary SNOW. Yes, we do.

Senator SHELBY. And how are you going to do this? I know I heard last year that you had a pilot program. I may have heard it the year before.

But these erroneous payments and so on could have cost the Treasury \$100 billion. That is not chicken feed.

Secretary SNOW. You mean over a 10-year period or something?

Senator SHELBY. Yes, sir. It is nothing to ignore.

Secretary SNOW. We owe you an answer. We owe the American taxpayers an answer on this.

TAX CODE DEFINITIONS

Senator SHELBY. I think you owe the American taxpayer an answer.

Secretary SNOW. For certain, we owe the American taxpayers an answer.

One thing is getting a uniform definition of a child. Apparently in the code today, one of the complexities is we have six, I am told, different definitions of a child. If we could settle on one definition of a child.

Filing status is an issue. What is the filing—is that person really the head of the household and the parent or not? When various people are claiming the child as their dependent. So getting the databases fixed.

Senator SHELBY. Looks to me like a good software program is needed to keep you from paying the EITC benefit here and from paying it there for the same child. It looks like you could find that the government is allowing someone in Alabama to claim EITC and someone else in Illinois or somewhere else for the identical benefit. And especially with the enormous amounts of money involved, I do not understand why you would not want to eliminate these erroneous and fraudulent payments.

Secretary SNOW. This program does involve tens of millions of Americans.

Senator SHELBY. We understand what it involves.

Secretary SNOW. Which adds to the complexity.

Senator SHELBY. But what is right and honest is right and honest, is it not?

Secretary SNOW. It is, and to make it right and honest, we need the systems in it at the front end of the EITC program rather than what happens today, which is an awful lot of checking and rechecking and checking and rechecking.

ADMINISTRATION OF EITC

Senator SHELBY. Mr. Secretary, who administers the EITC program?

Secretary SNOW. It is administered by the IRS.

Senator SHELBY. The Internal Revenue Service. The Internal Revenue Service is part of Treasury, is that correct?

Secretary SNOW. Yes, it is.

Senator SHELBY. So the buck stops here with the Commissioner of the Internal Revenue Service.

Secretary SNOW. That is right. And the Commissioner of the Internal Revenue has pledged to me that this issue is getting his full attention, that he is on top of these pilot projects. In fact, he made the decision last year to modify the pilot projects and not put into place the fixes on the EITC before we had the real results back.

I think this is as complex as it is is a little baffling, but it involves the fact that there are just so many claimants in an environment that it is so hard to really manage, with definitions of child that are not uniform, with poor information about dependents and who can claim dependents, poor information about actual parentage. We have got a real data collection and management problem here.

But there are three pilot projects going after the major components of the problem.

Senator SHELBY. I hope that we hear good news down the road to stop all people who are either fraudulent or erroneously filing things with the IRS.

Senator Murray.

Senator MURRAY. Thank you, Mr. Chairman.

Let us just not forget that there is another side to the EITC issue which is many, many poor taxpayers who do not know they are eligible who we are not giving their payments to. And that is part of the error rate that we do not want to lose in this.

Secretary SNOW. Senator, I agree with you. That is a part of the whole problem.

PRIVATE COLLECTION AGENCIES

Senator SHELBY. We do not want to hurt anybody.

Senator MURRAY. Mr. Secretary, as I talked about in my opening statement, IRS has proposed the use of private debt collectors to collect tax debts. And as I said, I am really uneasy about this proposal because of the abysmal record of the IRS in protecting the privacy of taxpayers.

In fact, when the IRS tried the use of private collection agencies in a pilot a couple of years ago, it was just fraught with problems. Then, in February of 2003, the IG noted the extraordinarily lax record of IRS in administering background checks for IRS contractors, including contractors that have access to sensitive tax data.

And then just last month the IG found that contractors committed numerous security violations that placed IRS equipment and taxpayer data at risk. In some cases contractors blatantly circumvented IRS policies and procedures, even when security personnel identified inappropriate practices.

For example, one disgruntled contractor employee planted a computer time bomb on a computer system that would have destroyed sensitive taxpayer data. And another contractor employee connected an unsecured computer to the IRS computer network, which permitted the introduction of a virus into the IRS computer system costing \$1.5 million in downtime and cleanup costs.

Mr. Secretary, given the fact that some of these findings were published just last month, why should we believe that the IRS is in a position to protect taxpayer information and privacy when they hand over the responsibility to collect tax debts to private contractors?

Secretary SNOW. Senator, I would agree with you that the prior experience with the private collection agencies did not go well. It was not a success. It was not as well-planned, as well thought out, as well structured as it should have been.

I think we have learned a lot of lessons from that prior experience that will be applied here if Congress authorizes IRS to go forward with the private collection agencies.

We are acutely aware of the protection of the taxpayer rights, the private collection agencies would have no enforcement power. They would go through intensive training about their role, which is not enforcement but just collection. They would go through intensive training on their legal responsibilities to taxpayers, including protection of confidentiality of taxpayer information.

This is really an effort on the part of the IRS to free up highly trained IRS auditors and examiners to do more complex work and use the collection agencies for what you might call the low hanging fruit. That is, calling people up, notifying them, reminding them that they have got an overdue tax bill, but not bringing any enforcement action of any kind.

The thought here is that a lot of people, if they are notified that they have an overdue tax bill and somebody calls them up and pays some attention to them, they are compliant and they would therefore be prepared to make their appropriate payments. These are paid immediately or with some installment plan.

PROTECTION OF TAXPAYER RIGHTS

Senator MURRAY. Mr. Secretary, I want to see what specific steps have been taken and what specific steps will be taken to protect privacy and to protect individual taxpayer data before I think this committee should move forward in moving in some kind of direction like that. I think that is extremely critical.

Secretary SNOW. Senator, I agree with you. I think it is absolutely critical that taxpayer rights be protected here and our pro-

posal would mandate that the IRS monitor the activities of these private collection agencies closely, monitor their performance and deal——

Senator MURRAY. Monitoring is after-the-fact.

Secretary SNOW [continuing]. Appropriately with it. There is the prior training. There would be intensive training, and there would be continuous monitoring. And then there would be penalties for those who hopefully——

Senator MURRAY. If somebody has already planted a computer time bomb, monitoring is not going to do anything but show you that it has happened.

Secretary SNOW. Senator, there is a big opportunity here to help collect some overdue monies using these resources that will not cost the Federal Government anything. And we are very sensitive to the issues you are talking about and we will go to great lengths to see that, as I say, the confidentiality and the information is protected and that taxpayer rights are fully protected.

TERRORIST USE OF CHARITY ORGANIZATIONS

Senator MURRAY. I will be following this issue very closely because I am deeply concerned about that, but my time is limited and I do want to ask you about funneling cash to terrorist organizations, as I also mentioned in my opening statement.

As you know, our government has linked some 23 charitable organizations with the al Qaeda network. And it has been a long-standing practice for terrorist organizations around the globe to use charitable giving as an avenue for their resources.

There appear to be some continuing disagreements between our government and the governments of the European Union as to which charities should be designated as being associated with these terrorist organizations. A number of international charities that are listed by the United States have not been listed by the European nations.

Do you believe the nations of Europe attach a significant amount of importance and commitment to combat terrorist funding?

Secretary SNOW. Senator, I think we have made a lot of progress, but not enough. I think there needs to be more focus on the issue you are talking about here. I do not buy the distinction that some countries make between funding for a charity that goes for charitable purposes and funding to a charity that ends up going for terrorist purposes.

Our policy is that if a charity is getting funding that goes for terrorist purposes, we designate that charity, as we have done on a number of occasions where urging other countries who are part of this FATF, the Financial Action Task Force, on Terrorist Finance to do the same. We have made progress in some places, not total progress in others.

DESIGNATION OF CHARITIES

Senator MURRAY. Which ones have we made progress with and which ones do we need to make progress with?

Secretary SNOW. We have made actually a lot of progress on the whole subject. In the last several months, with Saudi Arabia, we have named any number of Al-Haramain branch offices around the

world. And I can give you a full listing of all the designations. But there are a number of designations of charities now that have occurred.

In Europe, there is some reluctance to designate a charity in its totality. Money is money, and money that goes into a charitable organization is fungible with money that is used for good purposes and terrorist purposes.

[The information follows:]

DESIGNATION INFORMATION

Not all of the charities designated by the United States are linked to al Qaida. Those that have been submitted to the United Nations 1267 Sanctions Committee, where most have now been added to their consolidated list. Several others, however, were designated by the United States solely because of their ties to Hamas, e.g., the U.S.-based Holy Land Foundation for Relief and Development, the Al Aqsa Foundation, and the five mostly-European based charities designated by the United States last August.

To the extent a person or entity is designated by the United Nations because of its ties to al Qaida, the Taliban, or Usama bin Ladin, the mechanism within the European Union automatically triggers designation by the E.U. Clearinghouse (requiring all member countries to freeze the assets of the designated entity).

The U.N./Clearinghouse-linked process does not capture the U.S. designations of charities that are tied to HAMAS or Hizballah. Designation by the E.U. Clearinghouse without a U.N. designation requires unanimous consent. Absent a Clearinghouse decision, many E.U. countries do not have independent national authority to freeze assets, others lack the political will to take unilateral action.

The European Union's decision last September to designate Hamas as a terrorist group in its entirety represents an important first step towards our position. We continue to push them on implementing this decision by designating Hamas charities operating in Europe. As of this date, the European Union has not designated any of the Hamas-affiliated charities designated by the United States.

As a government, we are approaching this issue from many levels. We have made clear our position on Hamas, and other such terrorist groups, to our partners around the world. We are beginning to see a "sea change" of the European attitude on this matter, based in large part on the U.S. efforts to change attitudes and policies.

Part of these efforts include aggressive education on the requirements of UNSCR 1373, which requires all member countries to respond with actions to freeze assets when presented with credible information from another country that the individual/entity to be designated has been providing support to terrorists and terrorist organizations. This is also one of the requirements adopted by the Financial Action Task Force. Accomplishing this task will require a change in the E.U. Clearinghouse process and/or countries enacting separate authority to designate independent of the European Union and having the political will to use such authority.

Senator MURRAY. But what about Indonesia and Pakistan?

Secretary SNOW. When I was in Indonesia, we designated JI. I will get you a complete list of all these designations, but more need to come.

But it is interesting that Saudi Arabia has taken the steps that they have taken.

Senator MURRAY. Are you satisfied that they are actually enforcing the new restrictions that they have put in place?

Secretary SNOW. I think they are. Yes, I do. I think they take this very seriously. And of course, Al-Haramain is to them what the United Way is to us. It is their major charity. So good important progress is being made, but I think the distinction that some countries make between the good functions of charities and the terrorist functions of charities is an artificial and false distinction.

Senator MURRAY. Thank you, Mr. Secretary. And I know my time is limited. I need to go to another committee, as well.

I would like to submit my other questions for the record.

Senator SHELBY. Without objection, it will be ordered.

Also along those lines, Senator Dorgan has a number of questions, Mr. Secretary, that he would submit for the record.

Secretary SNOW. I would be happy to respond, Mr. Chairman.

Senator SHELBY. I also have a number of questions that I will submit for the record. You usually are very prompt in answering, and we appreciate that.

Mr. Secretary, what are your thoughts on Chinese currency? We have talked about that privately. We have both been to Beijing to talk with them about floating their currency, or at least within a more realistic band as to its real worth. They are buying a lot of the commodities of the world. Commodities have gone up in price. Not just steel scrap, of which they are buying a lot, but ore, metals, you name it. So they are going to have a problem there.

Do you have any observations on that?

Secretary SNOW. Well, I do, Mr. Chairman. I thank you for raising the question and giving me an opportunity to discuss it with you and compliment you on the good work you did on your mission last fall.

Senator SHELBY. We think they heard us, but they did not change anything, at least then, did they?

Secretary SNOW. I think the fact that they hear us is important and I think what we are saying is being listened to. They have committed again to move towards flexibility in the currency. They are taking a number of steps to prepare the way to do that, going after the bad loans in the banking system, taking steps to widen the amount of funds that can be brought in and out of the country, relaxing capital controls, putting in place a strong bank regulator, allowing non-Chinese firms to buy bad loans and take them off the government books which is important as we did back with the RTC, with the savings-and-loan crisis, advice we gave them and suggested they might want to study our savings-and-loan experience.

Senator SHELBY. But will that reoccur, though, as long as they have state-owned industries and state-owned banks making loans to state-owned industries which are not making any money because of the political equation?

Secretary SNOW. Mr. Chairman, that is the root problem, that is the root issue. And they understand that and are working to see that the capital that goes into the banking system goes to support real liable private enterprises and withdrawing more and more from the state enterprises.

I think that is the course they are on because they recognize that capital going to the state enterprises is not getting the return for the Chinese people that capital going into the private enterprises is. And it is perpetuating the problem.

Now they have an awful lot of people working in those state enterprises, and their dilemma is to create the jobs.

ADDITIONAL COMMITTEE QUESTIONS

Senator SHELBY. They have got a political problem there.

Secretary SNOW. They have got a political problem.

We appointed last week Ambassador Speltz, who is our representative to the Asian Development Bank, to be the Treasury's Personal Representative to the Chinese government on these currency and financial market issues. And it was well received by the Chinese.

Treasury has an ongoing, very productive, dialogue with China. A technical team is just back from China where we interacted with the Chinese on a whole range of financial market issues.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR RICHARD C. SHELBY

DEPARTMENTAL OFFICES

Question. Please update the committee on the status of hiring for initiatives that were funded in Fiscal Year 2004 Transportation-Treasury Appropriations bill.

Answer. The Executive Office for Terrorist Financing and Financial Crimes hired 11 of its 14 positions; International Affairs has hired 1 of its 10 positions and made offers for the remaining 9 positions.

Question. In fiscal year 2004, the Departmental Offices received \$2.285 million to hire 19 positions for the Office of Terrorist Financing and Financial Crimes and \$2.73 million to hire 10 positions for International Affairs. Please provide a financial plan for each of these initiatives and the hiring status of these positions, including the types of positions and responsibilities devoted to these new FTEs.

Answer. The financial plans are shown below:

FINANCIAL PLAN FOR FISCAL YEAR 2004 EXECUTIVE OFFICE FOR TERRORIST FINANCING AND FINANCIAL CRIMES

[In thousands of dollars]

Budget Object Class	Amount	Status
Salaries	1,622	The Conference Report limits the office to 14 FTE of which 11 have been hired and the remaining 3 will be on board by the end of the fiscal year.
Benefits	260	
Travel	100	
Rent, Utilities	25	
Other Services ¹	263	
Supplies	9	
Equipment	6	
Total	2,285	

¹ Includes SEAT Management computer equipment and software as well as security reviews/clearances.

Type of Positions:

- Deputy Assistant Secretary (1)
- Director, Money Laundering and Financial Crimes Policy (1)
- Senior Policy Analyst (1)
- Financial Crimes Specialist (3)
- Senior Advisor (2)
- Terrorist Financing Specialist (1)
- Program Analyst (3)
- Review Analyst and Schedule Coordinator (1)
- Clerk (1)

However, it should be noted that the fiscal year 2004 bill provided for 14 positions, not 19.

FINANCIAL PLAN FOR FISCAL YEAR 2004 INTERNATIONAL AFFAIRS INITIATIVE

[In thousands of dollars]

Budget Object Class	Amount	Status
Salaries	961	The 10 positions are International Economists. Of the 10, 1 position has been filled and offers have been made to qualified individuals to fill the other 9.
Benefits	215	
Travel	200	
Rent, Utilities, Misc.	100	
Other Services ¹	1,233	
Supplies	7	
Equipment	14	
Total	2,730	

¹ Includes SEAT Management computer equipment/software, training, translation services, security review/clearances, and other services.

Question. How many FTE are currently working in the Office of Terrorist Financing?

Answer. Currently, there are 11 FTEs in the Executive Office for Terrorist Financing and Financial Crimes.

Question. Please provide the justifications and the methodology for determining the business strategy adjustments included in the fiscal year 2005 budgets of the Fiscal Bureaus.

Answer. Treasury encourages its bureaus to review program performance for opportunities to redirect resources from obsolete and low performing programs to those which are mandatory or higher priority.

The fiscal year 2005 budget request reflects these efforts for two of Treasury's bureaus which identified business strategy adjustments as follows:

- The Financial Management Service request includes a reduction of \$5.163 million. It is proposed that these costs will be reimbursed through the Debt Collection Program.
- The Bureau of Public Debt request includes a \$967,000 reduction as a result of withdrawal of the Series HH bonds.

Question. A large portion of the Law Enforcement function was transferred from Treasury to Homeland Security and Justice in fiscal year 2003. Please define the Department's current role in the area of Law Enforcement.

Answer. Treasury still plays an important role in law enforcement—our expertise, data, and resources are crucial for following the money and stopping financial crimes, including money laundering, terrorist financing, and tax-related fraud. Treasury is responsible for administering the Bank Secrecy Act, including many of the provisions in the USA PATRIOT Act. It also has the authority to employ Geographic Targeting Orders (31 USC 5326) to attack money laundering systems domestically, and to employ USA PATRIOT Act Section 311 "special measures" for foreign financial threats. A description of Treasury's Law Enforcement function by office follows:

- Internal Revenue Service-Criminal Investigation Division (IRS-CI) is a crucial player investigation of criminal tax-related offenses and in the areas of money laundering and terrorist financing. IRS-CI has demonstrated its expertise by identifying, tracing and attacking the laundering of drug and other criminal enterprise proceeds, and assisting in the government's anti-terrorist financing investigations.
- Treasury Inspector General for Tax Administration (TIGTA) is responsible for oversight of IRS operations and investigation of criminal assaults and threats against IRS facilities, personnel, and infrastructure. TIGTA plays an integral role in Treasury's liaison with the FBI Joint Terrorism Task Force and other Federal entities that share intelligence relating to threats.
- Financial Crimes Enforcement Network (FinCEN) is the keeper of Bank Secrecy Act data, and serves as an information hub for the law enforcement community, working directly with law enforcement to provide support in the field.
- The Office of Foreign Assets Control (OFAC) works directly with the law enforcement community—such as the former Customs bureau and the FBI—to ensure the application of the criminal law to those violating U.S. sanctions.
- The Treasury Executive Office of Asset Forfeiture (TEOAF) manages asset forfeiture funds for the Treasury Department and the Department of Homeland Security. Treasury uses this responsibility to provide resources to law enforcement for key projects and initiatives that combat crime.

Question. The fiscal year 2005 budget requests \$20.3 million to complete the Treasury Building and Annex Repair and Restoration project. When is the scheduled completion date?

Answer. The anticipated final completion date is December 2005. Phases 1 and 2 have been completed and Phase 3 is on schedule to be completed by August 2004. Phase 4 (final phase) has begun and all construction activities are planned for completion by December 2005. This completion date assumes the availability of the \$7 million withheld from the fiscal year 2004 appropriation until further committee approval and full funding of the fiscal year 2005 budget request of \$20.3 million.

Question. Will this be the last year that an appropriation is necessary for this account?

Answer. Yes, fiscal year 2005 will be the last year that we request funding for the TBARR account. However, some critical repairs to the Main Treasury building have been deferred or cancelled in order to meet the December 2005 deadline with no additional resources. It is anticipated that additional funding will be required in future years to complete these critical repairs and other deferred maintenance projects in the Main Treasury and Annex buildings. This funding will not be requested under the TBARR account but as on-going maintenance and replacement expenses through the Salaries and Expenses, no-year, Repairs and Improvements account.

Question. The fiscal year 2005 budget request includes \$1.9 million for the establishment of an Office of Emergency Preparedness. What will be the responsibilities of this new office? What office carried out this function in the past? Were there any appropriated expenses for this function/office in fiscal year 2004 and prior years?

Answer. During this current fiscal year, the Department of Treasury recognized the importance of a more focused effort to establish and maintain viable and executable plans (in accordance with Presidential Decision Directive (PDD) 67, "Enduring Constitutional Government" and Executive Order (EO) 12656, "Assignment of Emergency Preparedness Responsibilities"), to ensure the continuity of its essential functions during any conceivable emergency condition—especially conditions denigrating or eliminating Treasury's ability to operate from its downtown locations. More specifically, the Department of Treasury's Office of Emergency Preparedness (OEP) will be responsible for improving the operating capabilities in a number of critical areas listed below:

- Treasury Emergency Management Center Operations;
- Continuity of Operations (COOP) Planning, Operations, and Alternate Operating Facility;
- Continuity of Government (COG) Planning, Operations, and Alternate Operating Facility;
- Emergency Management Policy and Guidance;
- Treasury Emergency Preparedness Test, Training & Exercise (TT&E) Program;
- Coordination and Oversight of Treasury Bureau Emergency Management Programs;
- Treasury Headquarters Evacuation and Shelter-in-Place Planning and Operations.

The function of National Security Emergency Preparedness was previously in the Office of Security and Continuity Planning, in the Office of the Chief Information Officer. There were no expenses for this office in fiscal year 2003 and prior; however, we expect to obligate \$177,000 in fiscal year 2004.


Question. A large part of the Treasury request for Departmental Offices is related to reimbursing the Secret Service \$2.4 million for protective service. Is the USSS the only force available to provide this protection? What were the costs related to this activity in fiscal year 2004?

Answer. The USSS provides protection to the Secretary of the Treasury. In fiscal year 2004, the United States Secret Service (USSS) and the Department of the Treasury signed a Memorandum of Understanding whereby the Department of the Treasury would reimburse USSS for only the travel costs incurred protecting the Secretary, which were estimated at \$1.2 million. Starting in fiscal year 2005, the Department of the Treasury will reimburse the USSS for the full cost of protecting the Secretary of the Treasury (including personnel compensation and overtime pay), currently estimated at \$2.5 million.

Question. How was the amount of \$2.4 million derived (please provide detail)? With the payment by the Treasury Department of such expense, what is the likelihood that the USSS will begin to charge the Department for other costs associated with protection of the White House Complex that Treasury is a part of?

Answer. On March 4, 2003, the President of the United States issued a memorandum to the Secretary of Homeland Security directing the USSS to continue providing physical protection for the Secretary of the Treasury. The funding estimates

for providing this security were prepared by the USSS and a copy is provided below. We do not anticipate other additional costs associated with the protection of the Secretary of the Treasury. In addition to the protection provided by the USSS for the Secretary of the Treasury, the USSS also protects the Treasury Headquarters Building located to the east of the White House. Since the USSS is mandated by statute to protect the buildings in the White House complex, it has no authority to request reimbursement from the Department of the Treasury for protection of that building.

 Department of Homeland Security United States Secret Service Annual cost of protecting the Secretary of the Treasury			
	FY 2002 Actual	FY 2003 Projected	FY 2004 Estimated
Annual Expenses			
Personnel Compensation (includes LEAP)	\$ 740,413	\$ 764,832	\$ 779,973
LEAP	185,103	191,208	194,993
Overtime	332,838	335,000	340,000
Personnel Benefits	292,001	305,933	311,989
Travel and Transportation of Persons	1,058,079	750,000	800,000
Rent, Communication and Utilities	29,869	30,000	30,000
Other Services	39,914	35,000	35,000
Supplies and Materials	2,744	20	500
Equipment			
TOTAL	\$ 2,690,961	\$ 2,411,992	\$ 2,492,455
One-time Costs			
Equipment			
Vehicle (dedicated to protectee)	\$ 24,809		
Grand TOTAL	\$ 2,715,770	\$ 2,411,992	\$ 2,492,455

Question. Has the analysis and proposal of this budget request included a cost analysis of other Government Building Security operations to determine that this is the best and most cost effective alternative for the Department?

Answer. A cost analysis of other protective services was not performed because the Secret Service has traditionally protected the Secretary of the Treasury.

Question. Does the budget proposal cover all costs that USSS can charge the department in fiscal year 2005?

Answer. The Department anticipates the fiscal year 2005 cost will reflect increases for salaries, benefits and inflation. The USSS has not notified the Department of any other increases in fiscal year 2005.

Question. Do other agencies pay the USSS for fulfilling their protective mission?

Answer. Currently, the Secretaries of Homeland Security and Treasury are the only Federal agency heads who receive USSS protection. Since the USSS is part of the Department of Homeland Security, it provides physical protection to the Secretary of Homeland Security without reimbursement. Because the USSS is no longer a component of the Department of the Treasury, it is reimbursed for the cost of physical protection of the Secretary of the Treasury.

Question. Please provide the total program costs for implementing and running HR Connect. With well over \$200 million invested, is Treasury getting the value promised from this investment?

Answer. Yes, Treasury is getting the value promised from its investment in HR Connect. The web-enabled system, now operational in all but one Treasury bureau, has the ability to replace the more than 100 paper-intensive, bureau-unique systems that cost more than \$23 million annually to maintain. Of the 30 features envisioned for the system, 20 have been implemented, 6 are being developed now, and 4 have been subsumed by other efforts. In addition, the centralized system has provided

Treasury with enterprise-wide reporting and sophisticated HR management tools. Unforeseen benefits have resulted, as well. The system has elevated Treasury's e-Government compliance level, and OPM has nominated HR Connect as one of four "Best in Breed" interoperable common HR solutions.

Question. Is this system providing savings? If so, please provide the savings achieved since the program became operational.

Answer. Significant savings have been realized with HR Connect. To date, quantitative benefits have been captured in three distinct categories: \$7.8 million in productivity savings, \$17.9 million in reduction of 222 staff from the HR organization, and \$2 million annual operational savings through legacy systems retirement. (Productivity savings are attributable to time saved by line organizations, or non-HR staff. The HR Connect Program Office (HRCPO) anticipates that the saved time will not result in reduction of line staff, but rather in re-direction of staff to other mission critical activities.) In subsequent years, additional savings are anticipated. In fiscal year 2005, HRCPO estimates \$10.0 million in productivity savings, \$33.9 million in staff reductions, and \$12.4 million in legacy savings. Additional staff reductions are expected throughout the 15-year program lifecycle, for a total staff reduction and redirection savings of \$633.1 million. Legacy savings attributable to HR Connect should total \$116 million by fiscal year 2012.

Question. What is the yearly cost to maintain this system?

Answer. The system requires approximately \$20 million annually for operations and maintenance, excluding staffing costs. Technology refreshes and system upgrades will be conducted every 3 years for an additional cost of approximately \$3 to \$5 million.

Question. Are all Treasury bureaus connected to this system?

Answer. Eleven of Treasury's 12 bureaus have deployed and are operating HR Connect, except the Office of Thrift Supervision (OTS), which must convert to HR Connect's required e-Payroll provider, the National Finance Center (NFC), before deploying HR Connect. OTS is contemplating a delay in NFC conversion until April 2005, and deployment of HR Connect will follow shortly thereafter. Additionally, two former Treasury bureaus continue to operate HR Connect, despite a divestiture that moved them to other agencies. Those bureaus are Alcohol, Tobacco, Firearms, and Explosives, now in the Department of Justice, and the United States Secret Service, now in the Department of Homeland Security.

Question. What is the annual cost of each bureau to run this system?

Answer. During HR Connect's development and deployment phase, the primary source of program funding has been Congressional contributions to the DSCIP fund. In fiscal year 2005, the HRCPO requested approximately \$17.5 million from Congress to fund the program's transition year to full operations and maintenance mode. Based on current estimates and new program requirements, which include the implementation of an ePerformance module to support the SES Pay for Performance initiative, the HRCPO predicts an additional \$3 million will be needed in fiscal year 2005. Funding for this gap will be requested from the bureaus based on their proportionate share as presented in the table below.

HRCPO is also recommending that, as an enterprise-wide solution, Treasury continue to request Congressional funding for program operations in the out years. If the recommendation is approved, the bureaus will not incur operations and maintenance costs for HR Connect in fiscal year 2006. If the recommendation is not approved, then the bureaus will contribute their proportionate share of the annual costs as presented below:

Bureau	Est. # of Accts	Bureau % Usage	FY 2005	FY 2006
Treasury Bureaus				
Alcohol and Tobacco Tax and Trade	443	0.31%	\$9,353	\$60,898
Comptroller of the Currency	2,791	1.96%	\$58,926	\$383,673
Departmental Offices	1,319	0.93%	\$27,848	\$181,320
Engraving & Printing	2,521	1.77%	\$53,225	\$346,557
Financial Management Service	2,207	1.55%	\$46,596	\$303,392
Internal Revenue Service	115,715	81.44%	\$2,443,066	\$15,907,115
Mint	2,317	1.63%	\$48,918	\$318,513
Office of the Inspector General	94	0.07%	\$1,985	\$12,922
OTS	913	0.64%	\$19,276	\$125,508
Public Debt	1,857	1.31%	\$39,206	\$255,278
FINCEN	247	0.17%	\$5,215	\$33,955
TIGTA	904	0.64%	\$19,086	\$124,271
HR Connect Customers				
ATFE	4,700	3.31%	\$99,230	\$646,100
USSS	6,066	4.27%	\$128,070	\$833,881
	142,094	100.00%	\$3,000,000	\$19,533,384

Question. The budget request includes \$1 million for a Turkey Financing facility. What will this facility provide?

Answer. The Emergency Wartime Supplemental Act signed by the President on April 16, 2003 includes \$1 billion in appropriations and authorization for up to \$8.5 billion in loans to Turkey to help protect its economy from shocks from the war in Iraq and to maintain economic stability in a key regional ally. Treasury estimates that it will cost the Office of International Affairs an additional \$1 million to continue to administer the Turkey Financing Facility.

Question. Is this a one-time item or will it require funding over a number of years?

Answer. The Facility anticipates making disbursements during fiscal year 2005 and fiscal year 2006, but this depends on when the Turkish government ratifies the Financial Agreement. Since disbursements from the Facility could be imminent and the work demand is front-loaded, Treasury has already received \$1 million from the \$1 billion appropriated under the Economic Support Fund (ESF) in the fiscal year 2003 Emergency Wartime Supplemental for Turkey to cover expenses for fiscal year 2004.

Question. The Department's budget includes over \$5 million in E-gov initiatives. Please describe Treasury's initiatives.

Answer. Treasury believes in the importance of E-government initiatives and has developed partnerships with industry and other Federal agencies to improve its interactions with citizens, businesses, and other Federal, State, and local government entities through the use of the Internet. Treasury is the lead agency for two E-government initiatives: Internal Revenue Service Free File and Expanded Electronic Tax Products for Businesses. The budget request for fiscal year 2005 is for the following initiatives:

—*Business Gateway.*—The Small Business Administration (SBA) is the lead agency. This initiative will create a single business gateway portal to reduce the burden on businesses by making it easy to find, understand, and comply with Federal laws and regulations. Treasury assists the SBA with consolidation and synchronization of Federal paperwork requirements. Small businesses will be able to submit all of their information electronically to the Federal Government which then can be shared securely across Federal agencies.

—*E-Authentication.*—The General Services Administration (GSA) is the lead agency. Treasury's Chief Information Officer (CIO) is the Chairperson for the Executive Steering committee. This initiative will minimize the burden on businesses, public, and government when obtaining online services. It is designed to provide the trusted and secure infrastructure—gateway, confirming the identity of electronic transaction participants. This initiative will enable Treasury to offer enterprise-wide applications with different assurance levels.

—*E-Records Management.*—The National Archives and Records Administration (NARA) is the lead agency. This initiative will enable Treasury to increase the percentage of eligible data archived/preserved electronically. Unified guidance

will provide consistency in implementing E-records management applications. It will also improve Treasury's ability to access/retrieve records.

—*E-Rulemaking.*—The Environmental Protection Agency (EPA) is the lead agency. This initiative will enable citizens to search for agency rules from any desktop computer, and to post remarks online. E-Rulemaking will help Treasury and other agencies integrate their applications into the government-wide system. This will allow for a more citizen centric approach to the regulatory process by providing more centralized online access to regulatory material via Regulations.gov.

—*E-Training.*—The Office of Personnel Management (OPM) is the lead agency. This initiative creates a premier E-training environment that supports development of the Federal workforce through simplified, one-stop access to high quality E-training products and services, advancing the accomplishment of agency missions.

—*E-Travel.*—The General Services Administration (GSA) is the lead agency. This initiative will improve the internal efficiency, administrative performance, and regulatory compliance relative to travel. Redundant and stovepipe travel management systems will be eliminated through a buy-once/use many shared services approach. Therefore, capital investment, operations, and maintenance costs for travel management services will be minimized. Treasury will use this to bring world-class travel management and superior customer service to the Federal travel process.

—*Integrated Acquisition Environment (IAE).*—The General Services Administration (GSA) is the lead agency. This initiative will reduce the burden for vendors doing business with the Federal Government. Achieve cost savings through consolidated vendor information, procurement data systems, use of common processes and reduce the cycle time of the procurement process. Treasury will benefit from the integration of IAE applications into Intra-governmental Transactions Exchange and the accessibility it will have to vendors.

The following chart provides a summary of the Department's contributions for these E-government initiatives. Of the \$7.5 million shown, \$5.5 million will be paid from the Department-Wide Systems and Capital Investment Program (DSCIP) and the remainder from bureau appropriations. Departmental contributions to the Federal E-government initiatives listed above are in compliance with the President's Management Agenda to eliminate redundant systems, use improved Internet-based technology to make it easy for citizens and businesses to interact with the government, save taxpayer dollars, and streamline citizen-to-government communications.

TREASURY CONTRIBUTIONS FOR E-GOVERNMENT INITIATIVES

Initiative	Fiscal Year 2003 Treasury Actuals	Fiscal Year 2004 Treasury Actuals	Fiscal Year 2005 President's Re- quest
Business Gateway	\$0	\$0	\$2,500,000
E-Authentication	3,178,572	377,000	393,000
EHRI	0	0	0
E-Rulemaking	100,000	775,000	885,000
E-Training	0	2,630,000	2,200,000
E-Travel	0	0	988,832
Expanding Electronic Tax Products	0	3,200,000	0
Grants.gov	0	0	0
Integrated Acquisition Environment	557,205	443,280	394,593
IRS Free File	0	0	0
E-Records Management	0	0	100,000
Totals	3,835,777	7,425,280	7,461,425

Question. What benefits are these initiatives providing to the Department?

Answer. The President's Management Agenda (PMA) set the stage for Treasury to build upon its goal of simplifying and unifying IT efforts to optimize services. Treasury's involvement in these initiatives is based on benefits projected by the Managing Partners to each participating agency by providing an enterprise-wide application, elimination duplicative services, management of processes, and timely and responsive service to all citizens. The Managing Partners of each initiative can provide specific details on the costs savings to be realized overall by undertaking each initiative.

Question. Does any of the funding relate to initiatives outside the Department of the Treasury?

Answer. The funding request of over \$5 million represents Treasury's contribution to these E-government initiatives. Treasury is partnering with these agencies to support of the President's Management Agenda (PMA). As one of the five pillars of the PMA, E-government is statutorily supported by the E-government Act, Clinger-Cohen Act, the Government Paper Elimination Act, and other legislation seeking to streamline electronic transactions and placing the Federal Government at citizens' fingertips through the use of digital technologies.

Question. Please provide an update of the activities of the Office of Critical Infrastructure.

Answer. The financial infrastructure of the United States is extremely resilient. It has been tested time and again by hurricanes, black outs, and terrorist attacks. Leaders within government and the private sector are continually enhancing the resilience of this financial infrastructure. Americans and, indeed, the world can have confidence that the financial infrastructure of the United States is better prepared than ever to handle man-made or natural disruptions.

In the event of an increase in the threat level, the Department of the Treasury communicates regularly with the other Federal financial regulators regarding the situation and whether additional actions are necessary. In addition to these communications, Treasury and other Federal and State financial regulators, working in close cooperation with the Department of Homeland Security and the private sector, have:

- Identified the payments, custodial, clearing, exchange, banking, trading, and other financial institutions that are most critical to our financial infrastructure.
- Arranged for expert assessments of physical and cyber-vulnerabilities in critical financial institutions.
- Arranged for critical financial institutions to have access to priority telecommunications services—both land-based and wireless—to help their voice and data communications get through during times of crisis.
- Assisted in coordinating the protective response of State and local authorities with critical financial institutions.
- Arranged for additional physical protection of critical financial institutions, consistent with available protective resources and the available threat information.
- Established systems and procedures that enable the Federal financial regulators to communicate among themselves and with the private sector during times of crisis as well as in advance to mitigate risks to the financial infrastructure.
- Promoted industry measures that maintain crucial financial communications among private sector participants.
- Conducted numerous tests, drills, and exercises to ensure that back up systems work and to ensure that financial professionals know what to do in times of either a heightened alert or an actual attack.
- Worked with the Financial Services Information Sharing and Analysis Center (FS-ISAC) to develop a more inclusive next-generation FS-ISAC business model that embraces all elements of the financial sector. The Treasury also acquired nearly \$2 million in services from the FS-ISAC, which had the added benefit of making the next-generation FS-ISAC a reality. This next-generation FS-ISAC now delivers integrated physical and cyber alert information to Treasury and to thousands of financial institutions and provides a secure, confidential platform to help financial institutions respond to potential or actual disruptions.
- Issued updated guidance on business continuity planning, including benchmarks for systemically critical payments and clearing organizations.
- Enhanced the security of the government's critical financial functions, including: borrowing money; making payments—including social security payments; and raising revenue through the Internal Revenue Service.
- Documented lessons learned by consumers, financial institutions, and government agencies in fighting the recent, dramatic rise in phishing attacks so that other consumers, financial institutions, and agencies could benefit from their experience.
- Established a plan for working with the telecommunications, energy, information technology, and transportation sectors to address vulnerabilities introduced into the financial sector by interdependencies with these other sectors.
- At the customer level, through the Office of Critical Infrastructure Protection, the Treasury leads administration efforts to improve policies and efforts to improve the security of personal financial information, particularly through efforts to fight identity theft. The Fair and Accurate Credit Transactions Act of 2003,

and its implementation this year, are examples of how the Treasury has worked closely with Congress in this effort.

In addition to these government activities, the private sector, with encouragement from and in cooperation with the Treasury, has taken important actions to protect the critical financial infrastructure. For example, the private sector has:

- Greatly reduced single points of failure in the telecommunications infrastructure that supports the most critical financial institutions by, for example, establishing private, self-healing fiber-optic telecommunications circuits over alternative pathways.
- Established improved business continuity plans.
- Developed security guidelines for institutions of different sizes and locations to follow in response to changing threat levels.
- Created new backup facilities at greater distance from their primary operations centers.
- In many cases, geographically dispersed executive and operational leadership.

Question. Please provide an update to the committee on the Department's efforts to meet its staffing divestiture goals as they relate to the final FTE transfers to the Department of Homeland Security.

Answer. For a complete response, please see the attached report (as required by House Report 108–243) that the Department submitted to the Congress on June 3, 2004.

[CLERK'S NOTE.—The documents referred to have been retained in Committee files.]

Question. The committee viewed the additional funding of 60 positions in fiscal year 2004 as stopgap funding during the transition of deployment of personnel from Treasury to the new Homeland Security Department. The Treasury Department's fiscal year 2005 budget proposes permanent funding in the Departmental Offices base for the foreseeable future. The committee had requested a report on the status of reducing the remaining FTE, which were not reduced by the beginning of fiscal year 2004 as planned. What is the status of this important report?

Answer. The report was submitted to the House and Senate Appropriations committees on June 3, 2004.

Question. Is the original goal of transferring 226 FTE to Homeland no longer valid?

Answer. For a complete response, please see the attached report (as required by Senate Report 108–146) that the Department submitted to the Congress on June 3, 2004.

[CLERK'S NOTE.—The documents referred to have been retained in Committee files.]

Question. Has DHS communicated that they can now operate at the lower level and will require no further transfers from Treasury?

Answer. DHS has not communicated the need for additional resources.

Question. Has Treasury sought any technical assistance in reviewing its secure IT systems from any private entity or government agency? What entity or agency? What is the status of the review? If the review is concluded, what corrective actions were taken? What has Treasury done to address the concerns raised by the IG related to Departmental Offices computer system vulnerabilities?

Answer. The Department of the Treasury has sought and received technical and administrative assistance from private entities. Booz Allen Hamilton, Inc. (BAH) and SRA International, Inc. have performed FISMA/Critical Infrastructure Protection (CIP) reviews of the security practices at the Departmental Offices (DO). Based on initial reviews, Treasury has already completed, or is in the process of completing, the following:

- Conducted appropriate IT security training and awareness sessions.
- Implemented applicable security policies and compliance programs.
- Established a DO Computer Security Incident Response Center (CSIRC), reporting to Treasury's CSIRC.
- Assessing and validating DO system applications inventory and conducting associated risk assessments and Certification and Accreditations (C&As), as necessary.

Question. Does the Department have a fully operational COOP plan? Does the Department have what it needs to implement and operate their plan?

Answer. The Department does have a fully operational COOP plan; however, there are still improvements required as identified in last year's GAO audit. In addition, as a result of lessons learned from the most recent FEMA exercise, Forward Challenge 2004, Treasury has identified other areas that require attention and improvement. For instance, Treasury still needs more robust communications for inter-

operability at the alternate sites to support its essential functions for COOP as stated in the GAO audit and the Federal Preparedness Circular (FPC) 65.

Question. Please explain the policy, procedures and specific processes that Treasury applies to oversee and manage the Departmental Offices' resources (both FTE and dollars), including the salaries and expenses, DSCIP, and TBARR accounts.

Answer. DO's Office of Financial Management prepares monthly reports for all appropriations that track both funding balances and FTE utilization. These reports are provided to the Assistant Secretary for Management, as well as office officials so that they can monitor their spending and make program decisions based on accounting reports. In addition, policies and procedures are in place for internal control purposes. At present, Management staff is reviewing, and updating as needed, all Departmental Office Orders and policies. We are also working with our policy offices to ensure that key department-wide directives are current. Our goal is to provide clear, transparent documentation and guidance to support optimal performance and decentralized oversight where possible—working together with all DO offices to maintain and observe proper financial and budgetary controls.

DSCIP

Question. How much does Treasury currently spend on Information Assurance? What IT security and functionality issues will the request in fiscal year 2005 provide that currently do not exist?

Answer. Treasury supports internal cyber Critical Infrastructure Protection (CIP), bureau Federal Information Security Management Act (FISMA) program reviews, President's Management Agenda (PMA), and Public Key Infrastructure (PKI) policy management through the Department-wide Systems and Capital Investment programs (DSCIP) account. The \$1 million requested for Information Assurance in fiscal year 2005 will build on the work being done in these areas to specifically address the assurance of secure internet communications with the Department, preventing cyber attacks and protecting against identity theft in key information systems.

The fiscal year 2005 request provides for an automated Department-wide Patch Management and Verification Process. Treasury currently utilizes manual intensive processes to address its computer vulnerabilities from a reactive mode. The fiscal year 2005 request will be used to support the planning and implementation of this network security functionality as well as asset identification, protection and interdependency analysis.

Question. The fiscal year 2005 budget requests \$1 million for Operational Security. How was this program funded in the past? What added functionality will \$1 million provide? Please provide the committee a detailed breakout and a spending plan for this request.

Answer. The fiscal year 2005 funding request of \$1 million provides for the implementation of a cohesive and comprehensive Security program for Treasury's Headquarters offices, including the Office of the Secretary and Policy Offices. Treasury's Headquarters offices have been without a formal IT security program for a number of years. This has been described by the Treasury Inspector General as a continuing material weakness and must be addressed.

Efforts to address security training and awareness are a priority. The request of \$1 million will provide for the following:

- Issuance of policy and procedures (\$100,000)
- Certification and Accreditation of applicable systems (19 Systems—\$300,000)
- Project management (\$100,000)
- Compliance monitoring (\$150,000)
- Security Engineering and Network Services support (\$350,000)

Question. The budget requests \$1 million for Treasury Enterprise Architecture. Please provide a detailed justification for this request.

Answer. The request for \$1 million is required to develop, validate, and begin implementation of a Treasury Enterprise Architecture (EA) management system. This funding requirement covers three functional areas in moving the Treasury EA to the end state "To Be" structure:

- Enterprise Solutions—\$500,000.*—Development of the business case and management plans for the implementation of the "To Be" consolidated infrastructure and Enterprise Architecture. It also includes contractor support to work with Treasury Bureaus in the identification of three to four enterprise solutions where Treasury can gain efficiencies. Currently, Treasury has identified office automation, telecommunications, and infrastructure as focus areas for possible cost avoidance/savings. Funding provided in this area will allow Treasury to "drill down" in each of these areas in the development of the EA.

- Reusable Components—\$300,000.*—Funding is required for contractor support to identify and capitalize on opportunities to achieve economies of scale and leverage the collective buying power of the Department. Several Treasury Bureaus support the President's Management Agenda e-Government initiatives; however, managing IT activities from an enterprise level requires refinement and streamlining with the Federal e-Government managing partner. Bureaus are funding investments that overlap with one or more of the 24 Federal e-Government Initiatives to which the Department is already contributing. This requested funding supports the development of three to four reusable service components business cases and plans for implementation, transition plans, standard profiles, and elimination of duplicated e-Government services.
- Federal EA (FEA) Reference Models—\$200,000.*—Funding is required for contractor support to develop the OMB FEA reference models. The FEA is constructed through a collection of interrelated "reference models" designed to facilitate agency analysis and the identification of duplicative investments, gaps, and opportunities for collaboration within and across the Federal Government. The models are the Performance Reference Model (PRM), the Business Reference Model (BRM), the Service Reference Model (SRM) and the Data and Information Reference Model (DRM). Completing these models facilitated the improvement in the Treasury Capital Investment Program. The data from these reference models will be incorporated into our portfolio management system. Development of these model works to ensure that the budget is allocated per Treasury priorities and key initiatives during the IT portfolio management process.

OFFICE OF TERRORISM AND FINANCIAL INTELLIGENCE

Question. Please provide a detailed breakout of the total numbers of FTEs available to the organization, including all appropriated and non-appropriated funds from Departmental Offices, any other Treasury bureau funding, and any funding from another Federal agency that supports this office.

Answer. Complete details of total FTE have not yet been finalized; however, Treasury anticipates that the Office of Terrorism and Financial Intelligence will oversee a staff of approximately 203 employees. These FTEs are our current estimate; however, the numbers could change once the leadership is in place. With the exception of staff detailed from the Financial Crimes Enforcement Network (FinCEN), no bureau funding will be used to fund this office, nor will other Federal agencies fund this office. This organization will consist primarily of pre-existing offices that include the Executive Office for Terrorist Financing and Financial Crimes (EOTF/FC), the Treasury Executive Office of Asset Forfeiture (TEOAF), Office of Foreign Assets Control (OFAC), the Financial Crimes Enforcement Network (FinCEN) and the Office of Intelligence Support (OIS). The fiscal year 2005 FTE breakdown for those offices that will fall under the TFI umbrella is as follows:

Office	FTE
Under Secretary ¹	8
TFI (includes EOTF/FC and OIS) ¹	58
TEOAF	17
OFAC	120
Subtotal Departmental Offices	203
FinCEN ²	292
TOTAL	495

¹ Includes funding and FTE request from the Deputy Secretary that is currently under consideration by the Appropriations Committees.

² FinCEN's 292 FTE include 1 reimbursable.

Question. Will the redirection of scarce resources from OFAC and FinCEN affect those organizations' ability to accomplish actual work fighting the war on terrorism?

Answer. The small number of detailees from OFAC and FinCEN should have a minimal effect on those agencies' ability to accomplish their missions. Indeed, the detailing of these officers should yield closer coordination among OIA and OFAC and FinCEN, ensuring that the Department focuses on its highest priorities and allows it to move scarce resources across priority targets.

Question. Deputy Secretary Bodman indicated in his testimony before the Senate Banking Committee that the Department will provide up to \$2 million from other areas to fund this office in fiscal year 2004. Please provide a detailed breakout of where these resources will be derived from.

Answer. Since October 2003, many offices have experienced attrition and the dollars saved during the process of filling those positions will be used to start up this new office. Offices with the employee turnover that generated the funds are:

Office	Salary Savings Generated from Turnover
Executive Direction Offices	\$324,000
Tax Policy	270,000
Domestic Finance	112,000
Economic Policy	182,000
International Affairs	518,000
Treasury-Wide Management and Administration	575,000
Total	1,981,000

Question. In Treasury's press release of March 8, the Department announced the creation of the Office of Terrorism and Financial Intelligence. How will the Department fund this office? When?

Answer. Start-up costs in fiscal year 2004 will be derived from salary savings in offices that have experienced employee turnover since the beginning of the fiscal year and a hiring freeze which has been in place since May. Once approved by the committee, funding will be programmed to the office on an as-needed basis, which will occur as the new office is staffed.

Question. The fiscal year 2005 request does not provide funding for this new office. How much will it cost to staff and run this office in fiscal year 2005?

Answer. The estimated additional cost for staffing and running this new office is approximately \$4.6 million.

Question. What is the vision for this office in 2 years? In 5 years?

Answer. The establishment of TFI will bring together Treasury's intelligence, regulatory, law enforcement, sanctions, and policy components, and enhance Treasury's efforts. As well, the new Office of Intelligence and Analysis (OIA) will address one of the longstanding issues identified in the Department of the Treasury, which is a lack of an integrated intelligence function that supports the Department and is linked directly into the Intelligence Community. Two primary functions are provided with the addition of OIA.

The Department of the Treasury needs actionable intelligence that can be used to exercise its legal authorities under all or portions of such acts as the International Emergency Economic Powers Act (IEEPA), USA PATRIOT Act, the Bank Secrecy Act, the Drug Kingpin Act, and Trading with the Enemy Act. Analytical products from the intelligence community are largely intended to inform policy-makers rather than taking action. They also tend to be highly classified, whereas Treasury often needs to use the lowest classification possible to use such material openly to press foreign governments or in evidentiary packages.

OIA will also provide intelligence support to other senior Treasury officials on a wide range of other international economic and political issues of concern to the Department. Subsuming the functions of the current Office of Intelligence Support, OIA will continue to review incoming raw and finished intelligence from other agencies, and then select relevant items for senior officials. The intelligence advisors will also drive collection by drafting requirements for the intelligence agencies to ensure that Treasury's information needs are met. Moreover, they will continue to serve in a liaison capacity with the intelligence community and represent the Department in various intelligence-related activities.

The Treasury Department is following a staged approach in the creation of TFI. This will ensure that the office will be able to work towards its short term goals while strengthening its capabilities and accomplishing its mission over the long term.

Question. What specifically will this office do that is not already being done by the United States Government?

Answer. The establishment of TFI will bring together Treasury's intelligence, regulatory, law enforcement, sanctions, and policy components, and enhance Treasury's efforts. As well, the new Office of Intelligence and Analysis (OIA) will address one of the longstanding issues identified in the Department of the Treasury, which is a lack of an integrated intelligence function that supports the Department and is linked directly into the Intelligence Community. Two primary functions are provided with the addition of OIA.

The Department of the Treasury needs actionable intelligence that can be used to exercise its legal authorities under all or portions of such acts as the Inter-

national Emergency Economic Powers Act (IEEPA), USA PATRIOT Act, Bank Secrecy Act, the Drug Kingpin Act, and Trading with the Enemy Act. Analytical products from the intelligence community are largely intended to inform policymakers rather than taking action. They also tend to be highly classified, whereas Treasury often needs to use the lowest classification possible to use such material openly to press foreign governments or in evidentiary packages.

OIA will also provide intelligence support to other senior Treasury officials on a wide range of other international economic and political issues of concern to the Department. Subsuming the functions of the current Office of Intelligence Support, OIA will continue to review incoming raw and finished intelligence from other agencies, and then select relevant items for senior officials. The intelligence advisors will also drive collection by drafting requirements for the intelligence agencies to ensure that Treasury's information needs are met. Moreover, they will continue to serve in a liaison capacity with the intelligence community and represent the Department in various intelligence-related activities.

The Treasury Department is following a staged approach in the creation of TFI. This will ensure that the office will be able to work towards its short term goals while strengthening its capabilities and accomplishing its mission over the long term.

Question. What enhanced ability will this office give the Department?

Answer. The creation of TFI will increase Treasury's efforts in several ways. The combined use of intelligence and financial data is the best way to detect how terrorists are exploiting the financial system and to design methods to stop them. By coordinating Treasury's intelligence functions and capabilities, TFI will benefit from enhanced analytical capabilities, as well as additional expertise and technology. Second, the USA PATRIOT Act gave the Department important new tools to detect and prevent the abuse of our financial system by terrorists and other criminals. TFI will coordinate Treasury's aggressive effort to enforce these regulations. Third, we have forged a strong international coalition to combat terrorist financing. The ongoing, cooperative efforts between the United States and our international partners are at unprecedented levels. The unified structure will promote a robust international engagement and allow us to intensify outreach to our counterparts in other countries. Finally, having a single office is the best way to ensure accountability and achieve results for this essential mission.

Question. What functionality will this provide the U.S. Government that does not currently exist?

Answer. The establishment of TFI will bring together Treasury's intelligence, regulatory, law enforcement, sanctions, and policy components, and enhance Treasury's efforts. As well, the new Office of Intelligence and Analysis (OIA) will address one of the longstanding issues identified in the Department of the Treasury, which is a lack of an integrated intelligence function that supports the Department and is linked directly into the Intelligence Community. Two primary functions are provided with the addition of OIA.

The Department of the Treasury needs actionable intelligence that can be used to exercise its legal authorities under all or portions of such acts as the International Emergency Economic Powers Act (IEEPA), USA PATRIOT Act, the Bank Secrecy Act, the Drug Kingpin Act, and Trading with the Enemy Act. Analytical products from the intelligence community are largely intended to inform policymakers rather than taking action. They also tend to be highly classified, whereas Treasury often needs to use the lowest classification possible to use such material openly to press foreign governments or in evidentiary packages.

OIA will also provide intelligence support to other senior Treasury officials on a wide range of other international economic and political issues of concern to the Department. Subsuming the functions of the current Office of Intelligence Support, OIA will continue to review incoming raw and finished intelligence from other agencies, and then select relevant items for senior officials. The intelligence advisors will also drive collection by drafting requirements for the intelligence agencies to ensure that Treasury's information needs are met. Moreover, they will continue to serve in a liaison capacity with the intelligence community and represent the Department in various intelligence-related activities.

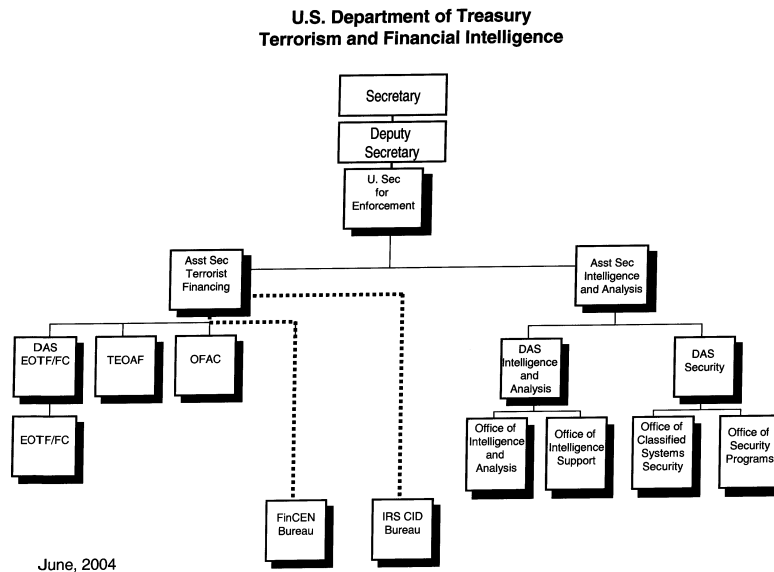
The Treasury Department is following a staged approach in the creation of TFI. This will ensure that the office will be able to work towards its short term goals while strengthening its capabilities and accomplishing its mission over the long term.

The creation of TFI will increase Treasury's efforts in several ways. The combined use of intelligence and financial data is the best way to detect how terrorists are exploiting the financial system and to design methods to stop them. By coordinating Treasury's intelligence functions and capabilities, TFI will benefit from enhanced

analytical capabilities, as well as additional expertise and technology. Second, the USA PATRIOT Act gave the Department important new tools to detect and prevent the abuse of our financial system by terrorists and other criminals. TFI will coordinate Treasury's aggressive effort to enforce these regulations. Third, we have forged a strong international coalition to combat terrorist financing. The ongoing, cooperative efforts between the United States and our international partners are at unprecedented levels. The unified structure will promote a robust international engagement and allow us to intensify outreach to our counterparts in other countries. Finally, having a single office is the best way to ensure accountability and achieve results for this essential mission.

Question. Please provide an organizational chart for the proposed office.

Answer. Please see the attached organizational chart.



Question. Please provide the committee with the number of detailees from OFAC, FinCEN and other agencies that are expected to support the new office.

Answer. To date, the Office of Intelligence Analysis has two employees detailed from OFAC, two detailed from FinCEN, and one detailed from CIA. Additional detailees have not yet been determined.

Question. When will the detailees be returned to their parent agencies?

Answer. They are currently on a 6-month detail. We will review the arrangement after the 6-month period is over. They can either renew their detail agreement or return to their home agencies.

Question. Who will have day to day oversight of these employees?

Answer. Those four officers are supervised by the Deputy Assistant Secretary for Intelligence and Analysis.

Question. How many FTE and budget resources will be realigned from Departmental offices (excluding OFAC)?

Answer. Approximately 27 FTEs will be realigned from DO in fiscal year 2005.

Question. What other offices within the Department will be merged into this new structure?

Answer. This structure will include the Executive Office for Terrorist Financing and Financial Crimes (EOTF/FC), the Treasury Executive Office of Asset Forfeiture (TEOAF), Office of Foreign Assets Control (OFAC), and the Office of Intelligence Support (OIS). There is always the possibility that other resources and synergies within Treasury can be found to amplify the efforts of TFI.

Question. If this office is critical, will the Department send up a budget amendment to realign its internal resources to fund this new office?

Answer. The administration does not intend to send up a budget amendment. In order to provide our perspective on the appropriate fiscal year 2005 funding levels, on June 25, 2004, the Treasury Department submitted a revised funding structure reflecting changes made to the DO account that can be viewed as an amendment to the Budget Justifications that we submitted to the committee in February 2004.

Question. How many FTEs, funded or detailed, are proposed to work in this office by the end of fiscal year 2004? Please break out the numbers between the responsibilities of the two assistant secretaries.

Answer. By the end of the fiscal year, the Department hopes to have 191 employees in the new office. The estimated breakdown is as follows:

Office	FTE
Under Secretary	6
TFI (includes EOTFFC and OIS)	48
OFAC	120
TEOAF	17
Subtotal Departmental Offices	191
FinCEN	292
Total	483

Question. Please provide a detailed explanation of the roles and responsibilities of each of the new assistant secretaries.

Answer. The Office of the Assistant Secretary for Intelligence and Analysis (OIA) will be responsible for developing a robust analytical capability on terrorist financing. The office will draft actionable intelligence to support Treasury's efforts to exercise its legal authorities, including the USA PATRIOT Act, the International Emergency Economic Powers Act (IEEPA), the Drug Kingpin Act, the Bank Secrecy Act, and Trading with the Enemy Act. It will provide intelligence support to other senior Treasury officials on a wide range of international economic and political issues of concern to the Department. The Assistant Secretary for Intelligence and Analysis will serve as the Senior Official of the Intelligence Community (SOIC) and represent the Department in intelligence community fora, such as the National Foreign Intelligence Board committees and the Community Management Staff. Moreover, the Assistant Secretary will be responsible for managing the Department's security functions, including information security, personnel security, industrial security, physical security, and counterintelligence.

The overall purpose of OIA is to ensure that the Treasury Department properly exploits the vast pools of financial data already collected by the Department and combines that data with the relevant intelligence collected by the intelligence community to create strategic and actionable financial intelligence and analysis to support Treasury's mission and authorities. For example, this analysis will be used to designate individuals under Presidential Executive Orders, target corrupt foreign financial institutions under Section 311 of the USA PATRIOT Act, guide regulatory policies and compliance, and direct strategic international engagement to set appropriate standards to safeguard the international financial system. OIA's priorities include identifying and attacking the financial infrastructure of terrorist groups; identifying and addressing vulnerabilities that may be exploited by terrorists and criminals in domestic and international financial systems; and promoting stronger relationships with our partners in the United States and around the world. A key long-term goal will be to ensure Treasury's full integration into the intelligence community, and ensure that the Secretary's economic and financial responsibilities are supported fully by the intelligence community.

OIA is already responding to Treasury's urgent short-term needs. A small team of analysts has already begun to closely monitor and review current intelligence threat reporting. These analysts sit together in secure space in the Main Treasury building and ensure that Treasury can track, analyze possible financial angles, and then refer their analysis to relevant Treasury and U.S. government components for appropriate action. In the near term, the Treasury Department plans to develop its analytical capability through OIA in untapped areas, such as strategic targeting of terrorist financial networks as well as analyzing trends and patterns and non-traditional targets such as hawalas and couriers.

The Office of the Assistant Secretary for Terrorist Financing (OTF) builds on the functions that have been underway at Treasury over the past year by developing, organizing, and implementing U.S. government strategies to combat terrorist financing and financial crime, both internationally and domestically. This office is the pol-

icy and outreach apparatus for the Treasury Department on the issues of terrorist financing, money laundering, financial crime, and sanctions. The Assistant Secretary is responsible for coordinating with other elements of the U.S. government, including law enforcement, and for working with the Federal regulatory agencies, both those within the Treasury Department such as the OCC and OTS and those outside such as the Federal Reserve, SEC and CFTC to ensure effective supervision for BSA and USA PATRIOT Act compliance.

OTF will be the primary office responsible for formulating Treasury Department counter-terrorist financing and anti-money laundering policies and implementing Treasury's related regulatory, sanctions, and enforcement programs and authorities. These functions include the administration, implementation, and enforcement of Presidential Executive Orders, in particular, those related to the freezing of terrorist assets, as well as the administration and safeguarding of the Bank Secrecy Act, as expanded by the USA PATRIOT Act.

In addition, OTF is responsible for integrating FinCEN, OFAC and TEOAF into these efforts. FinCEN provides a government-wide, multi-source intelligence and analytical network designed to support money laundering and other financial crime investigations, and it ensures the quality of the information it administers through outreach and regulatory action performed in the course of its administration of the BSA. OFAC has long administered and enforced economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign countries, foreign terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction. TEOAF provides oversight and management of Treasury's nationwide forfeiture program and the Treasury Forfeiture Fund. OTF also works in close partnership with IRS-CI to enforce terrorist financing, money laundering, and BSA laws.

OTF leads and coordinates the U.S. representation at international bodies dedicated to fighting terrorist financing and financial crime such as the Financial Action Task Force (FATF) and increases our multilateral and bilateral efforts in this field. This office creates global solutions to evolving international problems, attack financial crime and safeguard the financial system by advancing international standards, conduct assessments, provide technical assistance, and apply protective countermeasures against high-risk foreign jurisdictions and financial institutions. Bilaterally, OTF works with foreign finance ministries—such as the Russian Finance Ministry—to craft strategies to jointly attack terrorist financing both globally and within specific regions, and with foreign financial intelligence units to establish special channels of information exchange.

Question. Has the Department detailed FTE or expended funds from the Office of Foreign Assets Control? If there is a legal opinion related to this action, please provide such to the committee.

Answer. As noted above, the Department has detailed two officers from OFAC. Treasury asked its attorneys to review the draft documentation for establishing the non-reimbursable details of two OFAC employees to the Office of Intelligence and Analysis in the Departmental Offices for a period of up to 6 months. That documentation explained that the two employees would provide OFAC with relevant financial intelligence, targets and leads that would be the basis for further analytical work to be performed by OFAC, and that this work directly furthers OFAC's mission by permitting the analysts to assist in the coordination of financial intelligence research and analysis on a Department-wide basis. On the basis of this information, the attorneys expressed no legal objection to the details. No formal legal opinion was issued.

Question. Will all intelligence related to terrorist financing resident in the CIA, FBI, and Homeland Security become a part of this office? If not, why not?

Answer. The Office of Intelligence and Analysis will draw intelligence reporting from the CIA, FBI, and DHS to produce its own analytical products in support of Treasury's mission. It is also in daily contact with its interagency counterparts regarding threat reporting and other counterterrorism issues.

Question. How will the functions of this office differ from the Foreign Terror Asset Tracking Group (FTAT-G)?

Answer. We are in the process of evaluating how OIA and the FTAT-G will interact to ensure no overlap arises.

Question. How will it differ from the Terror Threat Integration Center (T-TIC)?

Answer. TTIC has the primary responsibility in the United States for terrorism threat analysis and is responsible for the day-to-day terrorism analysis provided to the President and senior policymakers. OIA differs from TTIC in that it will focus primarily on the financial angle of counterterrorism issues. It will also specifically support Treasury's authorities and its relations with foreign counterparts.

Question. Who will be the lead agency in overseas technical assistance that assists countries in learning about how to stop terrorists from using financial systems?

Answer. The Treasury Department will continue to provide technical assistance to countries around the world to help build anti-money laundering and counter-terrorist financing capacity. The State Department leads the coordination of terrorist financing-related training efforts with the interagency Terrorist Financing Working Group (TFWG). The Treasury Department participates actively in TFWG.

Question. Regarding intelligence gathering efforts, if the Department is currently obtaining intelligence on these issues, how it is being used to accomplish its mission?

Answer. The Treasury Department uses intelligence for several purposes. Most significantly, we use the information to develop the legal basis to impose economic sanctions, ranging from a designation to designate a primary money laundering concern under Section 311 of the USA PATRIOT Act to action under E.O. 13224. Intelligence information is used to develop strategic direction, e.g., determining countries that are vulnerable to exploitation by terrorists and, therefore, priorities for technical assistance or diplomatic outreach.

Within the Treasury Department, it can be used to designate a terrorist or narco-trafficker and it may be used to support an action for failure to comply with a designation, e.g., information may be provided to the FBI to support an investigation for providing support to a designated party—a criminal violation. It can be used to determine a primary money laundering concern or shared with a State or local law enforcement agency investigating a drug crime. It may be used by the Office of Critical Infrastructure Protection and Compliance Policy to evaluate a threat to the Treasury. Moreover, it may be used by the Office of the Under Secretary for Domestic Finance to identify vulnerabilities within the financial services industry's critical infrastructure that could be exploited. And, as previously discussed, it may be used by my senior staff and me as background for bilaterals with our foreign government colleagues.

Question. Is this information coming from the intelligence community and law enforcement?

Answer. Treasury receives information from the intelligence community and law enforcement, but also from our own analysis of information provided directly to Treasury under the Bank Secrecy Act, e.g., Suspicious Activity Reports (SARs) filed with the Financial Crimes Enforcement Network.

Question. What intelligence is Treasury providing that the Intelligence Community does not already have access to?

Answer. Information from the Bank Secrecy Act, such as Suspicious Activity Reports, and OFAC-related information from the banking community is managed by Treasury and is available to the intelligence community. The discussion of specific information available to the intelligence community is best left for a classified forum.

TERRORIST FINANCING

Question. Is Treasury considered the finance ministry of the U.S. Government?

Answer. Yes.

Question. Who has primary jurisdiction over financial intelligence?

Answer. No one agency has primary jurisdiction over financial intelligence. Different agencies use financial intelligence to support their specific missions. For example, the intelligence and law enforcement agencies use their collection and analysis on terrorist financing to support their operations. While consolidating financial intelligence into one agency could enhance accountability for outcomes under the statutes that Treasury enforces, other agencies will need the function to support their own missions.

Question. Should Treasury be the home of the financial intelligence units in the U.S. Government?

Answer. The term "financial intelligence unit" is a term-of-art that refers to the entity within a government that is responsible for receiving, analyzing, and disseminating information derived from suspicious activity reports and other money laundering-related reports from the financial sector. The Financial Crimes Enforcement Network (FinCEN) serves as the financial intelligence unit for the United States. FinCEN is an integral part of the Department of the Treasury and substantially benefits from Treasury's unique relationship with the financial community, the law enforcement community and the regulatory community.

Question. Who is the Federal Government's lead agency in the war on terrorist financing?

Answer. There is no one agency that is the lead agency in the war on terrorist financing. Each participating agency has a unique mission. The Treasury Department has the lead in safeguarding the integrity of the United States and international financial systems—including from abuse by terrorists and those who support them.

Treasury has expertise throughout the Department that stretches across the entire anti-money laundering/counter-terrorist financing (AML/CTF) spectrum and allows it to deal with complicated issues associated with the movement of money and assets in the United States and international financial system. All of these components give Treasury the necessary broad perspective to create and implement strategies to safeguard the financial system against abuse.

In its role safeguarding the financial systems both home and abroad, the Treasury Department utilizes numerous capabilities:

Sanctions and Administrative Powers.—Treasury wields a broad range of powerful economic sanctions and administrative powers to attack various forms of financial crime, including E.O. 13224 and Section 311 of the USA PATRIOT Act.

Law Enforcement and Law Enforcement Support.—Treasury combats various forms of financial crime through the direct law enforcement actions of IRS-CI and the law enforcement support provided by FinCEN and Treasury's regulatory authorities.

Financial Regulation and Supervision.—FinCEN administers the Bank Secrecy Act and issues and enforces AML/CTF regulations. Treasury further maintains close contact with the Federal financial supervisors—including the Treasury Department's Office of the Comptroller of the Currency and Office of Thrift Supervision—with the goal of ensuring that these regulations are being implemented consistently throughout the financial sectors. In addition, OFAC administers and enforces the various economic sanctions and restrictions imposed by statute and under the Secretary's delegated IEEPA authority.

International Initiatives.—The Treasury Department is part of and has access to an extensive international network of Finance Ministries and Finance Ministry-related bodies such as the Financial Action Task Force (FATF) and various FATF-Style Regional Bodies, the International Monetary Fund (IMF), the World Bank, the G-7, and various multilateral development banks. In addition, Treasury is the critical facilitator for the international relationship between financial intelligence units organized through the Egmont Group.

Private Sector Outreach.—As a result of our traditional role in safeguarding the financial system, Treasury has developed a unique partnership with the private sector. Through outreach programs such as the Bank Secrecy Act Advisory Group (BSAAG) and other regulatory and educational seminars and programs, Treasury maintains a close relationship with U.S. financial institutions to ensure a smooth exchange of information related to money laundering and terrorist financing. Treasury also maintains a close dialogue with the charitable sector to help it address its vulnerabilities to terrorist financing.

The Office of Terrorism and Financial Intelligence (TFI) brings together Treasury's intelligence, regulatory, law enforcement, sanctions, and policy components, and enhances Treasury's efforts in combating terrorist financing and financial crime. TFI will work in coordination with its partners in the interagency community to ensure that its efforts complement and augment the important initiatives already underway.

Question. What other agencies or departments are engaged in Treasury-related functions in terrorist financing?

Answer. Treasury works with many agencies on terrorist-financing matters. In fact, E.O. 13224 requires Treasury to consult with the Department of Justice, Department of State, and Department of Homeland Security in making designation decisions. Treasury also ensures that our activities are part of a coordinated government approach. To that end, we also work with the Central Intelligence Agency, Department of Defense, and National Security Agency.

Question. What is the cost and how much duplication is created when other agencies and departments engage in Treasury's responsibilities?

Answer. Each agency brings its own expertise, jurisdictions, and capabilities to the tasks at large. This expertise is used to the advantage of our overall efforts in the war against terrorist financing. As long as there is effective coordination and collaboration, we maximize efficiency and minimize cost and duplication.

Question. If there were a consolidation into one unit, would that allow the different agencies to focus on their core responsibilities and save resources to do more against terrorism?

Answer. Treasury has no reason to believe that other agencies are not currently focusing on their core responsibilities.

Question. Why was Treasury removed as the lead of the President's Coordinating Committee on terrorist financing?

Answer. Reflecting the high importance that the White House places on this issue, the National Security Council (NSC) currently chairs the Policy Coordinating Committee (PCC) on Terrorist Financing. Treasury continues to play an important role on the PCC. The purpose of the PCC has always been to coordinate the policy direction and actions of the U.S. Government related to terrorist financing. As chair, we may have had administrative responsibilities and shared a useful tool in this campaign. As chair, we often found ourselves driving the process by our readiness to take one action—forcing discussion on other options that, on many occasions, were more appropriate for the government to pursue. As a participant, we continue to bring a useful tool to the campaign and, as before, find ourselves fostering discussions through our readiness to act, but being responsive to other methods for accomplishing the ultimate goal—severing the link between a source of money and some willing and able to commit an act of terrorism.

Question. Should Treasury be the lead on all matters related to terror financing?

Answer. The Treasury Department has the lead in safeguarding the integrity of the United States and international financial systems—including from abuse by terrorists and those who support them.

Treasury has expertise throughout the Department that stretches across the entire anti-money laundering/counter-terrorist financing (AML/CTF) spectrum and allows it to deal with complicated issues associated with the movement of money and assets in the United States and international financial system. All of these components give Treasury the necessary broad perspective to create and implement strategies to safeguard the financial system against abuse.

In its role safeguarding the financial systems both home and abroad, the Treasury Department utilizes numerous capabilities:

Sanctions and Administrative Powers.—Treasury wields a broad range of powerful economic sanctions and administrative powers to attack various forms of financial crime, including E.O. 13224 and Section 311 of the USA PATRIOT Act.

Law Enforcement and Law Enforcement Support.—Treasury combats various forms of financial crime through the direct law enforcement actions of IRS-CI and the law enforcement support provided by FinCEN and Treasury's regulatory authorities.

Financial Regulation and Supervision.—FinCEN administers the Bank Secrecy Act and issues and enforces AML/CTF regulations. Treasury further maintains close contact with the Federal financial supervisors—including the Treasury Department's Office of the Comptroller of the Currency and Office of Thrift Supervision—with the goal of ensuring that these regulations are being implemented consistently throughout the financial sectors. In addition, OFAC administers and enforces the various economic sanctions and restrictions imposed by statute and under the Secretary's delegated IEEPA authority.

International Initiatives.—The Treasury Department is part of and has access to an extensive international network of Finance Ministries and Finance Ministry-related bodies such as the Financial Action Task Force (FATF) and various FATF-Style Regional Bodies, the International Monetary Fund (IMF), the World Bank, the G-7, and various multilateral development banks. In addition, Treasury is the critical facilitator for the international relationship between financial intelligence units organized through the Egmont Group.

Private Sector Outreach.—As a result of our traditional role in safeguarding the financial system, Treasury has developed a unique partnership with the private sector. Through outreach programs such as the Bank Secrecy Act Advisory Group (BSAAG) and other regulatory and educational seminars and programs, Treasury maintains a close relationship with U.S. financial institutions to ensure a smooth exchange of information related to money laundering and terrorist financing. Treasury also maintains a close dialogue with the charitable sector to help it address its vulnerabilities to terrorist financing.

The Office of Terrorism and Financial Intelligence (TFI) brings together Treasury's intelligence, regulatory, law enforcement, sanctions, and policy components, and enhances Treasury's efforts in combating terrorist financing and financial crime. TFI will work with its partners in the interagency community to ensure that its efforts complement and augment the important initiatives already underway.

Treasury has a central role to play in the overall fight against terrorist financing due to our unique responsibilities and position within the government and with respect to the financial sector. Of course, many agencies have important roles to play and have the lead in their specific areas of expertise. The FBI, for example, has the lead in terrorist financing investigations. This does not diminish from Treasury's role or responsibilities.

Question. Has Treasury's role on the PCC for Terrorist Financing changed since being replaced as the chair?

Answer. Treasury continues to play an important role on the PCC. The purpose of the PCC has always been to coordinate the policy direction and actions of the U.S. government related to terrorist financing. As chair, we may have had administrative responsibilities and shared a useful tool in this campaign. As chair, we often found ourselves driving the process by our readiness to take one action—forcing discussion on other options that, on many occasions, were more appropriate for the government to pursue. As a participant, we continue to bring a useful tool to the campaign and, as before, find ourselves fostering discussions through our readiness to act, but being responsive to other methods for accomplishing the ultimate goal—severing the link between a source of money and some willing and able to commit an act of terrorism.

Question. The Secretary indicated in his testimony before the subcommittee that there are clear lines of responsibility between Treasury and Homeland. Please provide a detailed description of the responsibilities of both Departments as they relate specifically to terrorist financing. Please include any Memorandum of Understanding or relevant documents for the record. Please also differentiate the role of Cornerstone from the Department's role.

Answer. The most fundamental responsibility of the Treasury Department is the safeguarding of the soundness and integrity of the United States and international financial systems. Treasury meets this responsibility through a wide range of programs, ranging from domestic regulatory actions to far-reaching international initiatives through the International Monetary Fund, participation in multilateral groups such as the Financial Action Task Force and the World Bank. Each of these programs benefits from the historic, deep and ongoing relationship that Treasury maintains with the U.S. financial community and our support for law enforcement investigative initiatives through financial powers unique to the Department of the Treasury.

Of course, a vital component of our overall efforts is the protection of the U.S. financial system from abuse by terrorist financiers, money launderers and other financial criminals. Central to these efforts are such Treasury components as the Executive Office for Terrorist Financing and Financial Crimes (EOTF/FC), Office of Foreign Assets Control (OFAC), Financial Crimes Enforcement Network (FinCEN), the Treasury Executive Office of Asset Forfeiture (TEOAF) and the Office of Critical Infrastructure Protection and Compliance Policy, and will soon include the newly-established Office of Terrorism and Financial Intelligence. Each of these offices works closely with the U.S. law enforcement community—including the FBI, DEA, IRS-CI, U.S. Secret Service, U.S. Postal Inspection Service, and the Bureau of Immigration and Customs Enforcement (ICE)—to ensure that criminals seeking to use and abuse the U.S. financial system are identified and brought to justice.

FinCEN, as the administrator of the Bank Secrecy Act, ensures that information reported under that act is provided to law enforcement agencies such as the Bureau of Immigration and Customs Enforcement (ICE). In addition to making the fruits of this activity available to law enforcement, FinCEN also uses its analytical resources to mine the data to support existing law enforcement cases on request, as well as to proactively identify potential new cases for law enforcement. FinCEN provides guidance to industry to ensure that its regulatory efforts are directed at law enforcement concerns, and takes enforcement action as necessary to ensure that its regulations are being followed. In addition, FinCEN publishes a number of analytical products to help law enforcement understand the financial system and follow the money, and to help the financial industry improve its monitoring and reporting of suspicious activity. Finally, in the international context, FinCEN's relationship with its counterpart financial intelligence units provides tremendous information where funds are flowing into or out of the United States, and are available for appropriate use by ICE as well as all Federal law enforcement investigating financial crimes. A large portion of FinCEN's budget is devoted to developing and supporting its systems and analytical tools to assist and complement the financial investigatory effort of programs such as Cornerstone, which Treasury welcomes. We look forward to a continued close cooperation with ICE in our efforts to combat financial crimes.

Question. The Bureau of Immigration and Customs Enforcement (BICE) administers the Systematic Homeland Approach to Reducing Exploitation program (SHARE) where BICE will be joined by U.S. Secret Service to jointly conduct semi-annual meetings with members of the banking and trade communities impacted by money laundering, identity theft and other financial crime. There is no mention of Treasury in the DHS press announcement or on the web page.

Does Treasury participate in these meetings? If so, please provide the materials presented in the last meeting to the private sector.

Answer. We understand from DHS that there have been no meetings to date under the SHARE auspices.

Question. Why is BICE taking the lead when it comes to dealing with financial institutions? Isn't this Treasury's role? What information is DHS providing that Treasury doesn't?

Answer. The Treasury Department has the lead in protecting the integrity of the U.S. financial sector and in dealing with financial institutions. Treasury would welcome efforts by DHS to provide the financial community with information related to DHS enforcement issues. For example, the Secret Service plays an important role in the investigation of counterfeiting U.S. currency, credit card fraud and identity theft.

Question. Does FinCEN deliver BSA data to BICE? Is it a gross data transfer? Does BICE have data mining software that is similar to what FinCEN was created to do? If so, what functionality for the financial industry is FinCEN providing?

Answer. Under a legacy process in place when certain ICE agents were employees of the U.S. Customs Service and part of Treasury, FinCEN provided a direct download of BSA data into the Treasury Enforcement Communications System (TECS), which is now administered by the Department of Homeland Security. We are not familiar with ICE's current data mining tools.

FinCEN, as administrator of the BSA and as mandated in Section 361 of the USA PATRIOT Act, has the responsibility for communicating with the financial industry about BSA matters. In meeting this obligation, FinCEN:

- Participates in numerous conferences and seminars being held throughout the year across the country;
- Participates in compliance training workshops;
- Chairs and conducts regular meetings with the BSA Advisory Group and its subcommittees;
- Interacts on a daily basis with bank officials throughout the country regarding various aspects of BSA compliance;
- Conducts customer surveys;
- Produces publications such as the The Suspicious Activity Review, a semi-annual publication providing feedback and guidance to financial institutions on BSA reporting and anti-money laundering requirements; and
- Provides interaction with the financial institutions through its Regulatory Help Line, which handles more than 5,000 calls a year, and through website postings of regulations, guidance, comment letters and other regulatory-related materials.

Question. This sounds virtually identical to the mission of FinCEN and the Treasury Department. How are the two roles different?

Answer. The missions are quite distinct. FinCEN is responsible for administering the Bank Secrecy Act. In that role, FinCEN is ultimately responsible for the collection, maintenance, analysis and dissemination of information collected under that Act. FinCEN has a statutory mandate to provide feedback to the industry. FinCEN provides guidance to the financial industry to ensure that its regulatory efforts are directed at law enforcement concerns, and takes enforcement action as necessary to ensure that its regulations are being followed. In addition, FinCEN publishes a number of analytical products to help law enforcement understand the financial system and follow the money, and to help the financial industry improve its monitoring and reporting of suspicious activity. Finally, in the international context, FinCEN is the United States financial intelligence unit and is responsible for the Egmont secure web, providing the Egmont Group, an international collection of financial intelligence entities charged with the collection and analysis of financial information to help prevent money laundering and other illicit finance, with the ability to communicate with one another via secure e-mail, posting and assessing information regarding trends, analytical tools, and technological developments. Currently, 76 of the 94 countries are connected to the Egmont Secure Web. In this area, FinCEN is unique in that it supports all of U.S. law enforcement and assists all international Egmont partners.

Question. What provisions of the National Money Laundering Strategy does Treasury enforce?

Answer. The National Money Laundering Strategy is not an enforcement document, but rather a document setting forth the President's overarching goals in a variety of areas to identify and combat money laundering, terrorist financing and other financial crimes.

Question. Is this strategy essential to coordinating the government goals to fight money laundering?

Answer. The Department believes that the requirement of drafting a national Strategy has been beneficial in that it has required the principal U.S. government

anti-money laundering and anti-terrorist financing regulators and law enforcement investigators and prosecutors, as well as the intelligence community to discuss overarching goals and directions, as well as to identify trends and emerging threats. The resulting Strategies reflect those interagency discussions.

Question. Has the administration transmitted a reauthorization proposal to Congress regarding the National Money Laundering Strategy?

Answer. I am not aware of a formal submission.

Question. The Secretary also indicated in his testimony that the Treasury Department is the lead agency for interdicting the flows of terrorist financing in the financial system and that Homeland Security is only responsible for the protecting the physical structures, but not the financial system itself.

Is there any written understanding between the Department of Homeland Security and the Department of the Treasury that clearly delineates the roles of the two agencies?

Answer. There are no written procedures delineating respective roles.

Question. Is there an MOU or other document between Justice and Treasury that defines the roles and missions of each Department in terrorist financing? Please provide a copy of any written understandings.

Answer. I am not aware of an MOU.

Question. The Memorandum of Understanding between the Justice Department and Homeland Security Department that establishes the Federal Bureau of Investigation as the lead in all terrorist financing investigations. What is the role of Treasury in investigating terrorist financing investigations? Why is the Department excluded from an MOU where Treasury has a major stake in the decisions being made?

Answer. The MOU referenced was necessary to provide clarity of jurisdiction so as to ensure proper coordination of law enforcement investigations of terrorist financing. The Treasury Department's law enforcement and support entities (IRS-CID, FinCEN, and OFAC) support the FBI-led Joint Terrorism Task Forces (JTTFs) on terrorist financing investigations. We see no need for Treasury to have been a signatory to an MOU allocating responsibility for domestic operational investigations of terrorist financing between the FBI and ICE.

Question. Who is the agency primarily responsible for safeguarding the integrity of America's financial systems?

Answer. The most fundamental responsibility of the Treasury Department is the safeguarding of the soundness and integrity of the United States and international financial systems. Treasury meets this responsibility through a wide range of programs, ranging from domestic regulatory actions to far-reaching international initiatives through the International Monetary Fund, participation in multilateral groups such as the Financial Action Task Force and the World Bank. Each of these programs benefits from the historic, deep and ongoing relationship that Treasury maintains with the U.S. financial community and our support for law enforcement investigative initiatives through financial powers unique to the Department of the Treasury. Although other agencies have primacy in the regulation of specific sectors of the U.S. financial system, no other agency has this overarching responsibility.

Of course, a vital component of our overall efforts is the protection of the U.S. financial system from abuse by terrorist financiers, money launderers and other financial criminals. Central to these efforts are such Treasury components as the Executive Office for Terrorist Financing and Financial Crimes (EOTF/FC), Office of Foreign Assets Control (OFAC), Financial Crimes Enforcement Network (FinCEN), the Treasury Executive Office of Asset Forfeiture (TEOAF) and the Office of Critical Infrastructure Protection and Compliance Policy, and will soon include the newly-established Office of Terrorism and Financial Intelligence. Each of these offices works closely with the U.S. law enforcement community—including the FBI, DEA, IRS-CI, U.S. Secret Service, U.S. Postal Inspection Service, and ICE—to ensure that criminals seeking to use and abuse the U.S. financial system are identified and brought to justice.

FinCEN, as the administrator of the Bank Secrecy Act, ensures that information reported under that act is provided to law enforcement agencies such as the Bureau of Immigration and Customs Enforcement. In addition to making the fruits of this activity available to law enforcement, FinCEN also uses its analytical resources to mine the data to support existing law enforcement cases on request, as well as to proactively identify potential new cases for law enforcement. FinCEN provides guidance to industry to ensure that its regulatory efforts are directed at law enforcement concerns, and takes enforcement action as necessary to ensure that its regulations are being followed. In addition, FinCEN publishes a number of analytical products to help law enforcement understand the financial system and follow the money, and to help the financial industry improve its monitoring and reporting of suspicious ac-

tivity. Finally, in the international context, FinCEN's relationship with its counterpart financial intelligence units provides tremendous information where funds are flowing into or out of the United States, and are available for appropriate use by ICE as well as all Federal law enforcement investigating financial crimes. A large portion of FinCEN's budget is devoted to developing and supporting its systems and analytical tools to assist and complement the financial investigatory effort of programs such as Cornerstone, which Treasury welcomes. We look forward to a continued close cooperation with ICE in our efforts to combat financial crimes.

Question. What agency is ultimately responsible for fighting the financial war on terrorism?

Answer. Several agencies work together in fighting the financial war on terrorism. The Treasury Department has the lead in safeguarding the integrity of the United States and international financial systems—including from abuse by terrorists and those who support them.

Treasury has expertise throughout the Department that stretches across the entire anti-money laundering/counter-terrorist financing (AML/CTF) spectrum and allows it to deal with complicated issues associated with the movement of money and assets in the United States and international financial system. All of these components give Treasury the necessary broad perspective to create and implement strategies to safeguard the financial system against abuse.

In its role safeguarding the financial systems both home and abroad, the Treasury Department utilizes numerous capabilities:

Sanctions and Administrative Powers.—Treasury wields a broad range of powerful economic sanctions and administrative powers to attack various forms of financial crime, including E.O. 13224 and Section 311 of the USA PATRIOT Act.

Law Enforcement and Law Enforcement Support.—Treasury combats various forms of financial crime through the direct law enforcement actions of IRS-CI and the law enforcement support provided by FinCEN and Treasury's regulatory authorities.

Financial Regulation and Supervision.—FinCEN administers the Bank Secrecy Act and issues and enforces AML/CTF regulations. Treasury further maintains close contact with the Federal financial supervisors—including the Treasury Department's Office of the Comptroller of the Currency and Office of Thrift Supervision—with the goal of ensuring that these regulations are being implemented consistently throughout the financial sectors. In addition, OFAC administers and enforces the various economic sanctions and restrictions imposed by statute and under the Secretary's delegated IEEPA authority.

International Initiatives.—The Treasury Department is part of and has access to an extensive international network of Finance Ministries and Finance Ministry-related bodies such as the Financial Action Task Force (FATF) and various FATF-Style Regional Bodies, the International Monetary Fund (IMF), the World Bank, the G-7, and various multilateral development banks. In addition, Treasury is the critical facilitator for the international relationship between financial intelligence units organized through the Egmont Group.

Private Sector Outreach.—As a result of our traditional role in safeguarding the financial system, Treasury has developed a unique partnership with the private sector. Through outreach programs such as the Bank Secrecy Act Advisory Group (BSAAG) and other regulatory and educational seminars and programs, Treasury maintains a close relationship with U.S. financial institutions to ensure a smooth exchange of information related to money laundering and terrorist financing. Treasury also maintains a close dialogue with the charitable sector to help it address its vulnerabilities to terrorist financing.

The Office of Terrorism and Financial Intelligence (TFI) brings together Treasury's intelligence, regulatory, law enforcement, sanctions, and policy components, and enhances Treasury's efforts in combating terrorist financing and financial crime. TFI will work in coordination with its partners in the interagency community to ensure that its efforts complement and augment the important initiatives already underway.

Treasury has a central role to play in the overall fight against terrorist financing due to our unique responsibilities and position within the government and with respect to the financial sector. Of course, many agencies have important roles to play and have the lead in their specific areas of expertise. The FBI, for example, has the lead in terrorist financing investigations. This does not diminish from Treasury's role or responsibilities.

Question. Is all information shared with Treasury from the Foreign Terror Asset Tracking Group (FTAT-G)?

Answer. With respect to FTAT-G, the purpose of that entity is to provide a forum where the various agencies with what can be described as proprietary information

can work together, each bringing their separate “databases” of information to bear on tracking assets. This information is used to develop reports that are used by decision-makers. Treasury has participated in the FTAT-G and, as a result, has had an opportunity to review and comment on working drafts and receives copies of all the final reports they prepare.

Question. Does the Terror Threat Integration Center (T-TIC) clear all of its terrorist financing information with the Department?

Answer. With respect to the TTIC, Treasury will become a party to the MOU authorizing the sharing of appropriate threat information. Treasury components will identify what, if any, information it may have covered by the MOU and will share.

Question. With Treasury being the lead agency on terrorist financing, does all terrorist financing intelligence and investigations come through the Department? How? Does the Treasury Department coordinate these actions? How?

Answer. All terrorist financing investigations do not come through the Department of the Treasury, nor should they. Just like OFAC designations, criminal investigation and prosecution are tools available to the United States in its war against the financing of terror. The Department, through its participation on the PCC, shares and receives information needed to make informed decisions concerning which anti-terrorist financing tools to apply in given circumstances.

Question. Does the Department direct the actions or the resources that other agencies spend to fight terror financing?

Answer. Treasury does not have the authority to direct the resources of other agencies.

Question. Does the Department have any input on the resources that Homeland spends on Cornerstone, as an example?

Answer. No.

Question. According to the testimony of numerous witnesses, there seems to be a considerable amount of duplication in the Federal Government on the issue of terrorist financing. What agency is making the resource decisions in spending by Department on the amounts spent on terror financing? Does Treasury have any input in this process?

Answer. The Office of Management and Budget (OMB) coordinates spending decisions. Treasury, like all agencies, works with OMB on those decisions.

Question. Should there be an evaluation of the coordination and actions of these financial intelligence units? Is any agency doing this?

Answer. There are existing fora for coordinating the actions of our financial intelligence functions. The National Security Council (NSC) oversees this coordination. We continuously work with the NSC and OMB to maximize our efforts developing financial intelligence and will continue to do so in the future. Treasury is always studying how we can best improve our efforts to meet our responsibilities, both within this agency and in cooperation with our sister agencies.

The term “financial intelligence unit” is a term-of-art that refers to the entity within a government that is responsible for receiving, analyzing, and disseminating information derived from suspicious activity reports and other money laundering-related reports from the financial sector. The Financial Crimes Enforcement Network (FinCEN) serves as the financial intelligence unit for the United States. FinCEN is an integral part of the Department of the Treasury and substantially benefits from Treasury’s unique relationship with the financial community, the law enforcement community and the regulatory community.

Question. If the resources were provided, could Treasury enforce its responsibilities under the Patriot Act, allowing the other agencies to focus on their core missions?

Answer. The Treasury Department believes that it is meeting its current USA PATRIOT Act responsibilities, but there is always more we can do. We have no reason to believe that other agencies are not focusing on their “core missions.”

Question. What resources would be necessary?

Answer. The Treasury Department believes that it is meeting its current USA PATRIOT Act responsibilities, but there is always more we can do. We have no reason to believe that other agencies are not focusing on their “core missions.”

Question. How will Treasury enforce the provisions of the USA PATRIOT Act it is responsible for?

Answer. Different components of the Department have differing “enforcement” responsibilities under both the BSA and the USA PATRIOT Act. For example, by virtue of a delegation order from the Secretary of the Treasury and an organic statute passed as part of the USA PATRIOT Act, FinCEN is charged with the responsibility of administering the regulatory regime of the BSA. In this capacity, among other things, FinCEN issues regulations and accompanying interpretive guidance; collects, analyzes and maintains the reports and information filed by financial institutions

pursuant to BSA regulations; makes those reports and information available to law enforcement and regulators; and ensures financial institution compliance with the regulations through enforcement actions. The USA PATRIOT Act both refined and extended FinCEN's focus in carrying out these responsibilities.

Amendments to the BSA by the USA PATRIOT Act sharpened FinCEN's responsibilities relating to the management of BSA information. For example, FinCEN designed and implemented the Patriot Act Communications System to provide a platform for electronically capturing at least 90 percent of all BSA reports, and built information sharing and dissemination systems required under Section 314. FinCEN is also undertaking the "BSA Direct" initiative to significantly upgrade mandated requirements to ensure that it secures this sensitive information and that it audits its use; that it "networks" disparate agencies accessing the information to ensure more robust investigation and to ensure that investigations do not overlap; and to collect and provide feedback and other information to the entities reporting the information—the financial industry—so that reporting can be better and more relevant for law enforcement.

The USA PATRIOT Act also extended FinCEN's regulatory responsibilities by accelerating expansion of BSA coverage to a broad range of new industries. Generally FinCEN's role involves such things as providing prompt BSA interpretive guidance to examiners, policy makers and the financial service industries, and ensuring the consistent application of the BSA regulations across industry lines, most notably through the rule making process and subsequent guidance. While FinCEN is responsible for ensuring compliance with the BSA regulatory regime, FinCEN does not itself examine financial institutions for compliance. Instead, FinCEN taps the resources and expertise of other Federal agencies and self-regulatory organizations by delegating to these agencies the responsibility for conducting compliance exams.

FinCEN does have an important role in supporting the examination regime created through these delegations. To enhance this role, FinCEN will create a new program office devoted solely to the BSA examination function. The new structure will consolidate all examination support functions and better enable FinCEN to provide the necessary support to regulatory agencies conducting BSA compliance exams. As an initial priority, FinCEN plans to focus on assisting the IRS in its examination function, particularly in light of the new regulations that FinCEN has and will issue to bring thousands of additional businesses under the BSA anti-money laundering program provision.

Since coordination among the functional regulators is essential for improving the overall compliance process, FinCEN will be working through the Bank Secrecy Act Advisory Group to identify, in coordination with the regulatory agencies, ways in which we can identify common compliance deficiencies, provide feedback and guidance to examiners, collaborate on a continuing basis on examination procedures, and engage in joint examiner training.

As part of our investigation of the current BSA regulatory system's ability to enforce industry compliance with provisions of the BSA, FinCEN is pursuing a number of initiatives to improve such compliance through enforcement and other actions, including: creating a new Examination Program Office; dedicating analytical resources to compliance support and examination targeting; allocating resources to provide interpretive guidance to examiners; reviewing enforcement referral guidelines and reporting requirements to FinCEN; and focusing on compliance by money service businesses.

FinCEN is also exploring ideas for enhanced coordination among the Federal regulators. These ideas include: identifying common compliance deficiencies; enhancing collaboration on examination procedures; and encouraging more joint examiner training. Treasury will work closely with FinCEN and the Federal regulators to develop these ideas and others as our investigation into the effectiveness of the current BSA compliance and enforcement system progresses.

Finally, FinCEN retains the authority to pursue civil enforcement actions against financial institutions for egregious non-compliance with the BSA and the implementing regulations. Under the BSA, FinCEN is empowered to assess civil monetary penalties against, or require corrective action by, a financial institution committing negligent or willful violations.

The IRS also has large BSA and USA PATRIOT Act enforcement responsibilities, both civilly and criminally. In addition to its primary jurisdiction, which is set forth in Title 26 of the United States Code (Internal Revenue Code), IRS-CI also has investigative jurisdiction involving other financial-related statutes. Beginning in 1970, Congress enacted a number of laws that led to greater participation by CI in the financial investigative environment. The Currency and Foreign Transactions Reporting Act of 1970 (Bank Secrecy Act); The Comprehensive Crime Control Act of 1984; The Anti-Drug Abuse Acts of 1986 and 1988; Crime Control Act of 1990; The An-

nunzio-Wylie Anti-Money Laundering Act of 1992; The Money Laundering Suppression Act of 1994; The Antiterrorism and Effective Death Penalty Act of 1996; The Health Insurance Portability and Accountability Act of 1996; and the USA PATRIOT Act of 2001 all developed and refined the existing anti-money laundering and anti-terrorism laws under Titles 31 and 18 of the United States Code.

Additionally, IRC, Section 6050 I, requires anyone involved in a trade or business, except financial institutions, to report currency received for goods or services in excess of \$10,000 on a Form 8300.

The combination of tax, money laundering and Bank Secrecy Act statutes enables IRS to identify and investigate tax evasion cases involving legal and illegal income sources. Ultimately, this versatility leverages IRS's ability to be a major contributor to many important national law enforcement priorities.

Responsibility for ensuring compliance with the BSA and USA PATRIOT Act of all non-banking and financial institutions not otherwise subject to examination by another Federal functional regulator i.e., Money Service Businesses (MSBs), casinos and credit unions was delegated to the IRS by the Department of Treasury in December 1992. Under the delegation, IRS is responsible for three elements of compliance—the identification of MSBs, educational outreach to all three types of organizations, and the examination of these entities suspected of noncompliance. The IRS performs these compliance functions along with its criminal enforcement role.

The processing and warehousing of BSA documents into the Currency Banking and Retrieval System (CBRS), including FBARs¹, CTRs², 8300s³ and SARs⁴, are also the responsibility of the IRS. All documents entered into the CBRS (approximately 14 million annually) are made available to other law enforcement and regulatory agencies in addition to IRS. However, the IRS is the largest user of the CBRS.

To meet its obligations under 31 CFR 103.57(b) and Treasury Delegation Order 15-41 IRS ensures that certain financial institutions (FIs) are in compliance with their recordkeeping and reporting requirements under the Bank Secrecy Act.

This is accomplished by a balanced civil and criminal program that includes:

- identifying financial institutions (FIs) under IRS jurisdiction,
- identifying those FIs that are actively involved in or facilitate money laundering and seek ways to end this activity,
- conducting BSA compliance examinations to identify or uncover potential areas of noncompliance, money laundering trends, patterns, schemes, and forwarding the information for use in enhancing the National Anti-Money Laundering Strategy,
- an aggressive effort to assist FIs for which IRS has jurisdiction in understanding their role in combating money laundering and to voluntarily meet their obligations under the BSA,
- actively participating in coordinated multi-agency anti-money laundering initiatives such as GTOs, HIDTAs, HIFCAs, and SAR Review Teams designed to disrupt and dismantle money laundering organizations,
- securing information on currency transactions which should have been reported or recorded and make available to law enforcement and other interested parties,
- utilizing and evaluating various currency transaction reports as authorized for tax compliance activities.

IRS's civil and criminal outreach efforts include State, and national associations affiliated with financial services industries. IRS provides keynote speakers, conducts seminars and provides educational programs relating to check cashers, bankers, tax practitioners, fraud examiners, corporate security personnel and bank security officers. This outreach and our efforts to contact money service businesses is a significant part of our program to identify and educate MSBs regarding their requirements to register their business with both the State and Federal Government.

IRS has approximately 350 civil examiners assigned to the anti-money laundering program. These examiners are currently conducting 5,576 examinations. In addition to the examination of non-banking financial institutions (NBFI), civil examiners also conduct reviews for compliance with the currency reporting requirements of Section 6050I of the Internal Revenue Code. As of March 31, 2004, the IRS NBFI database

¹ Foreign Bank & Financial Account Report (FBAR).

² Currency Transaction Report—(CTR) FinCEN Form 104 and FinCEN Form 103 (filed by casinos).

³ Report of Cash Payments Over \$10,000 Received in a Trade or Business (IRS and FinCEN form 8300).

⁴ Suspicious Activity Reports (SARs)—filed by financial institutions when there is suspicious activity, as determined by the financial institution.

reflected over 88,000 potential NBFIs. From September 30, 2000 through May 2004, IRS has closed 13,288 examinations and conducted 5,940 registration examinations.

On June 3, 2004, the Comptroller of the Currency testified before the Senate Committee on Banking, Housing and Urban Affairs, and detailed the actions OCC is taking under both the BSA and USA PATRIOT Act to ensure anti-money laundering compliance. That testimony is available on the Department of the Treasury's web site.

Question. Would the consolidation of financial intelligence into one Federal agency make the government more accountable for outcomes under the statutes that Treasury enforces?

Answer. Different agencies use financial intelligence to support their specific missions. For example, the intelligence and law enforcement agencies use their collection and analysis on terrorist financing to support their operations. While consolidating financial intelligence into one agency could enhance accountability for outcomes under the statutes that Treasury enforces, other agencies will need the function to support their own missions.

Question. On the Bureau of Immigration and Customs Enforcement (BICE) webpage is the following description of their role in terrorist financing:

"Cornerstone is ICE's premier financial crime program that seeks to identify vulnerabilities in financial systems through which criminals launder their illicit proceeds, bring the criminals to justice, eliminate the vulnerabilities, and develop a working partnership with industry representatives to share information and close industry-wide security gaps that could be exploited by money launderers and other criminal organizations. 'Safeguarding the integrity of America's financial systems is a key part of homeland security,' said Secretary Ridge. Criminal organizations are seeking new ways to finance their operations, and the Department of Homeland Security is moving aggressively to identify vulnerabilities within U.S. financial systems that could be exploited to those ends."

Describe in detail Treasury's role in the BICE program described above.

Answer. ICE is a law enforcement bureau within the Department of Homeland Security. We regard Operation Cornerstone as primarily a law enforcement investigative initiative of that bureau, and therefore have little involvement. That said, Operation Cornerstone does have a private sector outreach component, and Treasury is taking steps to ensure that this aspect of Cornerstone is coordinated with overall financial community outreach, a responsibility with which Treasury clearly is charged. Treasury's primary mechanism for such outreach is the Bank Secrecy Act Advisory Group (BSAAG), which is chaired by FinCEN.

Question. Was Cornerstone a coordinated effort with Treasury? What is Treasury's role?

Answer. As noted above, we regard Operation Cornerstone as primarily a law enforcement investigative initiative of that bureau, and therefore have had little involvement. That said, Operation Cornerstone does have a private sector outreach component, and Treasury is taking steps to ensure that this aspect of Cornerstone is coordinated with overall financial community outreach, a responsibility with which Treasury clearly is charged. Treasury's primary mechanism for such outreach is the Bank Secrecy Act Advisory Group (BSAAG), which is chaired by FinCEN.

Question. Does Cornerstone share all of their money laundering and terrorist financing information with the Treasury Department?

Answer. Operational law enforcement matters properly are handled by law enforcement agency or agencies, or joint task forces that are investigating the specific activities involved. It would not be appropriate for all information relating to such investigative operations to be shared with the Treasury Department.

That said, DHS, DOJ and Treasury do routinely share new and developing money laundering trends and methodologies information to ensure that their enforcement and prosecutorial efforts stay abreast of the activities of the criminals. As to terrorist financing information, ICE has merged all of its terrorist financing activities into the FBI's Terrorist Financing Operations Section (TFOS). Additionally, Treasury, through IRS-CI, is an active participant in DOJ's JTTF, along with ICE and other law enforcement agencies.

Question. How is this different from FinCEN's mission and also the mission of the Office of Critical Infrastructure? Please be specific.

Answer. FinCEN is responsible for administering the Bank Secrecy Act. In that role, FinCEN is ultimately responsible for the collection, maintenance, analysis and dissemination of information collected under that Act. FinCEN has a statutory mandate to provide feedback to the industry. FinCEN provides guidance to industry to ensure that its regulatory efforts are directed at law enforcement concerns, and takes enforcement action as necessary to ensure that its regulations are being fol-

lowed. FinCEN's primary mechanism for private sector outreach is the Bank Secrecy Act Advisory Group. In addition, FinCEN publishes a number of analytical products to help law enforcement understand the financial system and follow the money, and to help the financial industry improve its monitoring and reporting of suspicious activity. Finally, in the international context, FinCEN is the U.S. financial intelligence unit and is responsible for the Egmont secure web, providing the Egmont Group, an international collection of financial intelligence entities charged with the collection and analysis of financial information to help prevent money laundering and other illicit finance, with the ability to communicate with one another via secure e-mail, posting and assessing information regarding trends, analytical tools, and technological developments. Currently, 76 of the 94 countries are connected to the Egmont Secure Web.

The Office of Critical Infrastructure Protection and Compliance Policy works with the financial services sector and regulators on behalf of the Department in the area of critical infrastructure protection for the financial services sector. The Department is the agency of the U.S. government responsible for coordinating the development of policies to reduce vulnerabilities and increase resilience for the Nation's financial services sector critical infrastructure. This office develops policy formulations intended to increase the resilience of private sector financial services firms. The office also supports the Assistant Secretary for Financial Institutions, who chairs the Financial and Banking Information Infrastructure Committee, a grouping of Federal and State financial regulators that focuses on the resilience and integrity of financial sector infrastructure. Moreover, this office supports Treasury policymakers concerning the development of policies regarding information sharing, the protection of personal financial information, and remittances.

Question. This seems to be not only complimentary of the Treasury mission; it seems to be the Treasury mission. Why is the Federal Government funding two different agencies in two Executive Branch Departments to do the same job?

Answer. We view the Cornerstone initiative as complimentary and not as duplicative. The most fundamental responsibility of the Treasury Department is the safeguarding of the soundness and integrity of the U.S. and international financial systems. Treasury meets this responsibility through a wide range of programs, ranging from domestic regulatory actions to far-reaching international initiatives through the International Monetary Fund, participation in multilateral groups such as the Financial Action Task Force and the World Bank. Each of these programs benefits from the historic, deep and ongoing relationship that Treasury maintains with the U.S. financial community and our support for law enforcement investigative initiatives through financial powers unique to the Department of the Treasury.⁵

Of course, a vital component of our overall efforts is the protection of the U.S. financial system from abuse by terrorist financiers, money launderers and other financial criminals. Central to these efforts are such Treasury components as the Executive Office for Terrorist Financing and Financial Crimes (EOTF/FC), Office of Foreign Assets Control (OFAC), Financial Crimes Enforcement Network (FinCEN), the Treasury Executive Office of Asset Forfeiture (TEOAF) and the Office of Critical Infrastructure Protection and Compliance Policy, and will soon include the newly-established Office of Terrorism and Financial Intelligence. Each of these offices works closely with the U.S. law enforcement community—including the FBI, DEA, IRS-CID, U.S. Secret Service, U.S. Postal Inspection Service, and ICE—to ensure that criminals seeking to use and abuse the U.S. financial system are identified and brought to justice.

FinCEN, as the administrator of the Bank Secrecy Act, ensures that information reported under that act is provided to law enforcement agencies such as the Bureau of Immigration and Customs Enforcement (ICE). In addition to making the fruits of this activity available to law enforcement, FinCEN also uses its analytical resources to mine the data to support existing law enforcement cases on request, as well as to proactively identify potential new cases for law enforcement. FinCEN provides guidance to industry to ensure that its regulatory efforts are directed at law enforcement concerns, and takes enforcement action as necessary to ensure that its regulations are being followed. In addition, FinCEN publishes a number of analytical products to help law enforcement understand the financial system and follow the money, and to help the financial industry improve its monitoring and reporting of suspicious activity. Finally, in the international context, FinCEN's relationship

⁵ For example, the most important tool in the United States arsenal to attack systemic money laundering is the Geographic Targeting Order (31 U.S.C. § 5326) by and through which financial industry reporting can be reduced and more finely honed. In the international realm, use of PATRIOT Act Section 311 (31 U.S.C. § 5318A) to target "primary money laundering jurisdictions, accounts, financial institutions and others is a very potent weapon".

with its counterpart financial intelligence units provides tremendous information where funds are flowing in to or out of the United States, and are available for appropriate use by ICE as well as all Federal law enforcement investigating financial crimes. A large portion of FinCEN's budget is devoted to developing and supporting its systems and analytical tools to assist and complement the financial investigatory effort of programs such as Cornerstone, which Treasury welcomes. We look forward to a continued close cooperation with ICE in our efforts to combat financial crimes.

Question. Considering that ICE and FBI have financial intelligence units with hundreds of staff devoted to financial intelligence, why should Treasury still be considered as the lead agency?

Answer. The Treasury Department has the lead in safeguarding the integrity of the U.S. and international financial systems—including from abuse by terrorists and those who support them.

Treasury has expertise throughout the Department that stretches across the entire anti-money laundering/counter-terrorist financing (AML/CTF) spectrum and allows it to deal with complicated issues associated with the movement of money and assets in the United States and international financial system. All of these components give Treasury the necessary broad perspective to create and implement strategies to safeguard the financial system against abuse.

In its role safeguarding the financial systems both home and abroad, the Treasury Department utilizes numerous capabilities:

Sanctions and Administrative Powers.—Treasury wields a broad range of powerful economic sanctions and administrative powers to attack various forms of financial crime, including E.O. 13224 and Section 311 of the USA PATRIOT Act.

Law Enforcement and Law Enforcement Support.—Treasury combats various forms of financial crime through the direct law enforcement actions of IRS-CI and the law enforcement support provided by FinCEN and Treasury's regulatory authorities.

Financial Regulation and Supervision.—FinCEN administers the Bank Secrecy Act and issues and enforces AML/CTF regulations. Treasury further maintains close contact with the Federal financial supervisors—including the Treasury Department's Office of the Comptroller of the Currency and Office of Thrift Supervision—with the goal of ensuring that these regulations are being implemented consistently throughout the financial sectors. In addition, OFAC administers and enforces the various economic sanctions and restrictions imposed by statute and under the Secretary's delegated IEEPA authority.

International Initiatives.—The Treasury Department is part of and has access to an extensive international network of Finance Ministries and Finance Ministry-related bodies such as the Financial Action Task Force (FATF) and various FATF-Style Regional Bodies, the International Monetary Fund (IMF), the World Bank, the G-7, and various multilateral banks. In addition, Treasury is the critical facilitator for the international relationship between financial intelligence units organized through the Egmont Group.

Private Sector Outreach.—As a result of our traditional role in safeguarding the financial system, Treasury has developed a unique partnership with the private sector. Through outreach programs such as the Bank Secrecy Act Advisory Group (BSAAG) and other regulatory and educational seminars and programs, Treasury maintains a close relationship with U.S. financial institutions to ensure a smooth exchange of information related to money laundering and terrorist financing. Treasury also maintains a close dialogue with the charitable sector to help it address its vulnerabilities to terrorist financing.

The Office of Terrorism and Financial Intelligence (TFI) brings together Treasury's intelligence, regulatory, law enforcement, sanctions, and policy components, and enhances Treasury's efforts in combating terrorist financing and financial crime. TFI will work in coordination with its partners in the interagency community to ensure that its efforts complement and augment the important initiatives already underway.

Treasury has a central role to play in the overall fight against terrorist financing due to our unique responsibilities and position within the government and with respect to the financial sector. Of course, many agencies have important roles to play and have the lead in their specific areas of expertise. The FBI, for example, has the lead in terrorist financing investigations. This does not diminish from Treasury's role or responsibilities.

FINCEN

Question. Please provide a detailed description of what BSA Direct will provide in functionality to FinCEN.

Answer. The BSA Direct initiative encompasses systems and processes that will significantly alter the way Bank Secrecy Act information is provided to law enforcement and the regulators that access the information. It will provide those entities, including FinCEN, with state of the art data search tools in a robust user-friendly environment. Users will be able to search Bank Secrecy Act information faster and better, and will be able to do more with the data than they currently can. Eventually, sophisticated data mining, geographic and other analytic tools will be added to the environment, which will add to the value of the Bank Secrecy Act information. Finally, the initiative will help free FinCEN analytic resources to focus on more complex and strategic analysis of the financing of terror, money laundering and other illicit finance. To better understand the specific functionality this initiative will provide to FinCEN, it is important to understand the way Bank Secrecy Act information is currently managed, analyzed and disseminated.

FinCEN is the delegated administrator of the Bank Secrecy Act, a regulatory statute designed to deter, prevent and address money laundering and illicit finance, including the financing of terrorism. The keystone of the Bank Secrecy Act is a reporting regime under which financial institutions report to the Federal Government certain information—large cash transactions or suspicious activity. Over 13 million Bank Secrecy Act reports are filed each year by more than 200,000 U.S. financial institutions, providing invaluable information to detect and prevent financial crimes. FinCEN is responsible for ensuring that information is collected, securely housed, analyzed and shared with law enforcement. Amendments to the Bank Secrecy Act by the USA PATRIOT Act sharpened FinCEN's responsibilities relating to this information. Among other things, FinCEN is responsible for securing this sensitive information and auditing its use; networking with disparate agencies accessing the information to ensure more robust investigation and ensuring that investigations do not overlap; and collecting and providing feedback and other information to the entities reporting the information—the financial industry—so that reporting can be better and more relevant for law enforcement.

Currently, under a legacy process that predates FinCEN, Bank Secrecy Act reports are collected by the Internal Revenue Service's Detroit Computing Center and are housed in an IBM IDMS mainframe environment incorporating 12 hierarchical databases. Most persons access the data through a "gateway" connection. While the IRS is currently converting the data to a "DB2" relational format, the data on the mainframe system in Detroit is not currently kept in a relational database, so search capabilities are limited for persons and entities that access Bank Secrecy Act information through that system. Because of the limitations of this system, FinCEN devotes a significant portion of its analytic resources to data retrieval for many of its law enforcement customers. As a result of this system, FinCEN downloads a duplicate copy of the Bank Secrecy Act database every night to other systems and into programs that provide relational data mining and analytical capabilities.

FinCEN is not the only entity that downloads all or part of the Bank Secrecy Act data from the Detroit Computing Center. Under legacy arrangements that pre-date FinCEN's current leadership, Suspicious Activity Reports (SARs) filed by depository institutions are downloaded directly from the IRS's Detroit Computing Center to the Federal Bureau of Investigation and United States Secret Service. Bank Secrecy Act information is also downloaded to the Treasury Enforcement Communications System (TECS), which was maintained by the former U.S. Customs Service and is now maintained by the Department of Homeland Security (DHS). Agencies with access to TECS (e.g., DHS's Immigration and Customs Enforcement, DHS's Customs and Border Protection, DOJ's Bureau of Alcohol, Tobacco, Firearms and Explosives, etc.) generally access Bank Secrecy Act information through that system. FinCEN has a limited ability to network the use of the data by those who download it since it is entirely dependent on manual feedback on the use of the data, which is difficult to obtain. Moreover, auditing the use of the data is far more difficult since it depends on manual reviews combined with the tracking system in place at the independent system. Simply put, currently FinCEN cannot fully meet any of its statutory responsibilities relating to the data utilizing the current system and processes in place.

The systems and processes contemplated in the BSA Direct initiative will allow FinCEN to not only meet these responsibilities, but will provide law enforcement, regulators and FinCEN a modern, user-friendly environment to mine and analyze BSA data. The heart of the BSA Direct initiative is a secure data warehouse to consolidate the Bank Secrecy Act information into a single, integrated data set. Users will have a flexible and robust query system accessible through an intuitive web-based interface. This system will provide access, including secure web access, to Bank Secrecy Act information with capabilities that allow end users to perform ad hoc as well as pre-defined queries and reporting. Users will gain easier, faster data

access and enhanced ability to query and analyze Bank Secrecy Act information, and FinCEN will have tools to control and audit the use of this sensitive information, network with agencies that are using the data, and provide better feedback to the financial industry about the use of the data, which will lead to more relevant reporting.

The full scope and detail of the functionality will be more fully determined as a result of the user requirements analyses in the first months of the project. However, the following examples identify the types of capabilities that BSA Direct will afford FinCEN and its customers that they presently do not have:

- The automated capability for FinCEN to control and audit the use of all persons accessing Bank Secrecy Act information.
- The capability, through an alert system, for FinCEN to “network” all users of Bank Secrecy Act information that “hit” the same data, or appear to be analyzing the same information.
- The capability to analyze law enforcement’s use of the data to provide meaningful feedback to the financial industry, which will result in better reporting.
- The capability to develop sophisticated filer profiles for financial industry members to help FinCEN and the regulators target entities for compliance examinations as well as the ability to be notified automatically by the system when there is a significant filing anomaly.
- An intuitive interface to enable users to query data with little or no training, and with strong, context-sensitive on-line help.
- Users will be able to keep and view a list of their prior queries.
- Managers in organizations will be better able to audit and manage the use of the data by their subordinate users.
- Users will be able to schedule a particular query to re-run on a schedule set by the user.
- Users will be able to customize query output, i.e., define what columns of information are displayed, rearrange the order of the columns, and then save that order as a personal default view.
- Users will have the ability to sort, filter, and aggregate columns of data.
- Users will be able to run “batch queries,” e.g., social security numbers from all bankruptcy filings 6 months ago against all Bank Secrecy Act filings in the last year.
- Users will be able to create customized queries and reports.
- A geographic mapping tool will provide information to show the geographic significance of Bank Secrecy Act data.
- Users will have the capability to pre-schedule queries and receive reports on a timetable scheduled by users.
- Users will be able to download results into popular formats, e.g., Word, Excel, Analysts Notebook, etc.

Question. Please provide the cost and schedule, as well as an assessment of the technical risk of development, for BSA Direct for fiscal year 2005 and for future fiscal years.

Answer. The Request for Proposals (RFP) for BSA Direct (full and open competition) was released in February 2004. FinCEN is currently in the final stages of evaluating the proposals received in response to the RFP. Because the BSA Direct RFP clearly specifies that the offerors must utilize standards based methodology (SEI-CMM level 2 or higher) and use open standards, COTS products, and because the underlying data warehousing technology is relatively mature, technical risk is minimized. Risk management is a key component of the project management.

FinCEN has submitted a Cost and Schedule Milestones chart for BSA Direct (as submitted to the Office of Management and Budget in December 2003) below. The costs in this chart were based upon estimates provided by the Mitre Corporation, which FinCEN engaged to help evaluate the project. It is important to note that these are only estimates based on Mitre’s study. FinCEN will be pleased to provide the committee with a much more accurate cost picture for this project once a contract for the system is awarded.

COST AND SCHEDULE GOALS: ORIGINAL BASELINE FOR A PHASE/SEGMENT/MODULE OF PROJECT (INVESTMENT)

Description	Planned					
	Schedule		Duration		Planned Cost (BCWS)	Funding Agency
	Start Date	End Date	Days	Hrs.		
1. Program Administration Costs, excludes FTE.	09/01/2003	03/13/2004	194	.....	\$225,000	FinCEN
2. Project Management, excludes FTE.	04/05/2004	09/30/2005	543	.....	\$1,006,000	Department of Treasury
3. BSA Direct Proof of Concept (POC) Development.	10/02/2003	03/12/2004	162	.....	\$393,000	Treasury
4. BSA Direct System Development and Construction.	04/05/2004	06/10/2005	431	.....	\$4,278,000	Treasury
4.1 Requirements Definition and Analysis.	04/05/2004	08/20/2004	137	.....	\$531,000	Treasury
4.2 System Design	06/14/2004	10/29/2004	137	.....	\$398,000	Treasury
4.3 System Design Review	10/18/2004	11/05/2004	18	.....	\$40,000	Treasury
4.4 System Development Environment Setup.	07/05/2004	08/13/2004	39	.....	\$80,000	Treasury
4.5. System Development & Construction.	09/06/2004	03/18/2005	193	.....	\$929,000	Treasury
4.6 Data Conversion, Transformation, & Migration.	06/14/2004	09/30/2004	108	.....	\$744,000	Treasury
4.7. System/Integration/Test Environment.	09/27/2004	11/05/2004	30	.....	\$80,000	Treasury
4.8. Usability/Component Functional Testing.	01/24/2005	04/15/2005	81	.....	\$239,000	Treasury
4.9. System/Integration/Testing.	03/21/2005	06/10/2005	81	.....	\$372,000	Treasury
4.10. Integration with other systems.	03/21/2005	06/10/2005	81	.....	\$465,000	Treasury
4.11. Lease costs hardware and software.	04/05/2004	06/10/2005	431	.....	\$400,000	Treasury
5. BSA Direct Deployment and Roll-out.	06/28/2004	09/16/2005	445	.....	\$1,675,000	Treasury
5.1. Deployment and Rollout Strategy Planning.	06/28/2004	09/17/2004	81	.....	\$239,000	Treasury
5.2. Acceptance/Production Ready Testing.	05/02/2005	07/08/2005	67	.....	\$398,000	Treasury
5.3. Production System Deployment & Rollout.	05/02/2005	09/16/2005	137	.....	\$531,000	Treasury
5.4. User Training and Transition.	06/06/2005	08/26/2005	81	.....	\$372,000	Treasury
5.5. Lease costs hardware and software.	06/02/2005	09/30/2005	120	.....	\$135,000	Treasury
6. BSA Direct Operations and Maintenance.	10/01/2005	09/30/2006	364	.....	\$2,500,00	FinCEN
PROJECT TOTAL	09/01/2003	09/30/2006	1,125	.....	\$10,077,000	

Question. If full funding were provided, when will the system be complete?

Answer. With full funding, the FinCEN basic system contemplated by BSA Direct system will be operational and available to users by October 2005. It is anticipated that FinCEN will continue to enhance the basic functionality of the system in future years. The goal at this point is to get the basic foundation of the system up and running as quickly as possible.

Question. If BSA Direct were fully funded, what functionality would that provide FinCEN that it currently does not have?

Answer. The full scope and detail of the functionality will be more fully determined as a result of the user requirements analyses in the first months of the project. However, the following examples identify the types of capabilities that BSA Direct will afford FinCEN and its customers that they presently do not have:

—The automated capability for FinCEN to control and audit the use of all persons accessing Bank Secrecy Act information.

- The capability, through an alert system, for FinCEN to “network” all users of Bank Secrecy Act information that “hit” the same data, or appear to be analyzing the same information.
- The capability to analyze law enforcement’s use of the data to provide meaningful feedback to the financial industry, which will result in better reporting.
- The capability to develop sophisticated filer profiles for financial industry members to help FinCEN and the regulators target entities for compliance examinations as well as the ability to be notified automatically by the system when there is a significant filing anomaly.
- An intuitive interface to enable users to query data with little or no training, and with strong, context-sensitive on-line help.
- Users will be able to keep and view a list of their prior queries.
- Managers in organizations will be better able to audit and manage the use of the data by their subordinate users.
- Users will be able to schedule a particular query to re-run on a schedule set by the user.
- Users will be able to customize query output, i.e., define what columns of information are displayed, rearrange the order of the columns, and then save that order as a personal default view.
- Users will have the ability to sort, filter, and aggregate columns of data.
- Users will be able to run “batch queries,” e.g., social security numbers from all bankruptcy filings 6 months ago against all Bank Secrecy Act filings in the last year.
- Users will be able to create customized queries and reports.
- A geographic mapping tool will provide information to show the geographic significance of Bank Secrecy Act data.
- Users will have the capability to pre-schedule queries and receive reports on a timetable scheduled by users.
- Users will be able to download results into popular formats, e.g., Word, Excel, Analysts Notebook, etc.

Question. Is BSA Direct on schedule?

Answer. Each of the offerors has committed to deliver BSA Direct by October 14, 2005, or sooner. This is a 2-week delay from our initial schedule.

Question. What will it cost to complete the system?

Answer. FinCEN has submitted a Cost and Schedule Milestones chart for BSA Direct (as submitted to the Office of Management and Budget in December 2003) below. The costs in this chart were based upon estimates provided by the Mitre Corporation, which FinCEN engaged to help evaluate the project. It is important to note that these are only estimates based on Mitre’s study. FinCEN will be pleased to provide the committee with a much more accurate cost picture for this project once a contract for the system is awarded.

COST AND SCHEDULE GOALS: ORIGINAL BASELINE FOR A PHASE/SEGMENT/MODULE OF PROJECT (INVESTMENT)

Description	Planned					
	Schedule		Duration		Planned Cost (BCWS)	Funding Agency
	Start Date	End Date	Days	Hrs.		
1. Program Administration Costs, excludes FTE.	09/01/2003	03/13/2004	194	.....	\$225,000	FinCEN
2. Project Management, excludes FTE.	04/05/2004	09/30/2005	543	.....	\$1,006,000	Department of Treasury
3. BSA Direct Proof of Concept (POC) Development.	10/02/2003	03/12/2004	162	.....	\$393,000	Treasury
4. BSA Direct System Development and Construction.	04/05/2004	06/10/2005	431	.....	\$4,278,000	Treasury
4.1 Requirements Definition and Analysis.	04/05/2004	08/20/2004	137	.....	\$531,000	Treasury
4.2 System Design	06/14/2004	10/29/2004	137	.....	\$398,000	Treasury
4.3 System Design Review	10/18/2004	11/05/2004	18	.....	\$40,000	Treasury
4.4 System Development Environment Setup.	07/05/2004	08/13/2004	39	.....	\$80,000	Treasury
4.5. System Development & Construction.	09/06/2004	03/18/2005	193	.....	\$929,000	Treasury
4.6 Data Conversion, Transformation, & Migration.	06/14/2004	09/30/2004	108	.....	\$744,000	Treasury

**COST AND SCHEDULE GOALS: ORIGINAL BASELINE FOR A PHASE/SEGMENT/MODULE OF PROJECT
(INVESTMENT)—Continued**

Description	Planned					
	Schedule		Duration		Planned Cost (BCWS)	Funding Agency
	Start Date	End Date	Days	Hrs.		
4.7. System/Integration/Test Environment.	09/27/2004	11/05/2004	30	.....	\$80,000	Treasury
4.8. Usability/Component Functional Testing.	01/24/2005	04/15/2005	81	.....	\$239,000	Treasury
4.9. System/Integration/Testing.	03/21/2005	06/10/2005	81	.....	\$372,000	Treasury
4.10. Integration with other systems.	03/21/2005	06/10/2005	81	.....	\$465,000	Treasury
4.11. Lease costs hardware and software.	04/05/2004	06/10/2005	431	.....	\$400,000	Treasury
5. BSA Direct Deployment and Roll-out.	06/28/2004	09/16/2005	445	.....	\$1,675,000	Treasury
5.1. Deployment and Rollout Strategy Planning.	06/28/2004	09/17/2004	81	.....	\$239,000	Treasury
5.2. Acceptance/Production Ready Testing.	05/02/2005	07/08/2005	67	.....	\$398,000	Treasury
5.3. Production System Deployment & Rollout.	05/02/2005	09/16/2005	137	.....	\$531,000	Treasury
5.4. User Training and Transition.	06/06/2005	08/26/2005	81	.....	\$372,000	Treasury
5.5. Lease costs hardware and software.	06/02/2005	09/30/2005	120	.....	\$135,000	Treasury
6. BSA Direct Operations and Maintenance.	10/01/2005	09/30/2006	364	.....	\$2,500,00	FinCEN
PROJECT TOTAL	09/01/2003	09/30/2006	1,125	.....	\$10,077,000	

Question. How is FinCEN providing information to the law enforcement entities that it serves?

Answer. FinCEN provides analytic products—both tactical and strategic—to appropriate law enforcement customers. FinCEN also administers a process under Section 314 of the USA PATRIOT Act that permits law enforcement to submit requests to financial institutions for transactional and account information in certain cases. A particular institution indicates whether it has such information and that information is provided to law enforcement. FinCEN also maintains some general information for law enforcement on its public web-site and will provide more and better information to law enforcement through BSA Direct.

FinCEN also provides access to Bank Secrecy Act data. Legacy processes and inadequate data retrieval capabilities currently result in this data being provided to Federal, State and local law enforcement in several ways:

- Through direct case support from a FinCEN analyst.
- Through “Platform” support, whereby law enforcement agencies may send personnel to FinCEN to use its technical and analytical resources to work their agency’s respective cases on an as needed basis.
- Through “Gateway,” which provides direct, dial-in access to Bank Secrecy Data housed at the IRS’s Detroit Computing Center.
- To certain entities, through wholesale direct downloads of all or part of the Bank Secrecy Act data from the Detroit Computing Center. Direct downloads are currently provided to:
 - The Federal Bureau of Investigation and United States Secret Service receive wholesale downloads of suspicious activity reports filed by depository institutions.
 - A wholesale download of all Bank Secrecy Act information is made into the Treasury Enforcement Communications System (TECS). TECS, which was previously administered by the former U.S. Customs Service, is now administered by the Department of Homeland Security. Various law enforcement entities have access to TECS.

Question. Is FinCEN sending law enforcement wholesale data or does it screen requests through its system?

Answer. FinCEN provides wholesale data to the following Federal law enforcement agencies: the Federal Bureau of Investigation and the United States Secret Service receive downloads of Suspicious Activity Reports (SARs) filed by depository institutions. In addition, a wholesale download of all Bank Secrecy Act information is made into the Treasury Enforcement Communication System (TECS) which is now administered by the Department of Homeland Security. All other requests are thoroughly screened.

Question. Is FinCEN doing gross data information transfers to the Bureau of Immigration and Customs Enforcement and the Federal Bureau of Investigation without any directed analysis or query from them?

Answer. Yes. The BSA Direct initiative encompasses systems and processes that will significantly alter the way Bank Secrecy Act information is provided to law enforcement and the regulators that access the information. It will provide those entities, including FinCEN, with state of the art data search tools in a robust user-friendly environment. Users will be able to search Bank Secrecy Act information faster and better, and will be able to do more with the data than they currently can. Eventually, sophisticated data mining, geographic and other analytic tools will be added to the environment, which will add to the value of the Bank Secrecy Act information. Finally, the initiative will help free FinCEN analytic resources to focus on more complex and strategic analysis of the financing of terror, money laundering and other illicit finance. To better understand the specific functionality this initiative will provide to FinCEN, it is important to understand the way Bank Secrecy Act information is currently managed, analyzed and disseminated.

FinCEN is the delegated administrator of the Bank Secrecy Act, a regulatory statute designed to deter, prevent and address money laundering and illicit finance, including the financing of terrorism. The keystone of the Bank Secrecy Act is a reporting regime under which financial institutions report to the Federal Government certain information—large cash transactions or suspicious activity. Over 13 million Bank Secrecy Act reports are filed each year by more than 200,000 U.S. financial institutions, providing invaluable information to detect and prevent financial crimes. FinCEN is responsible for ensuring that information is collected, securely housed, analyzed and shared with law enforcement. Amendments to the Bank Secrecy Act by the USA PATRIOT Act sharpened FinCEN's responsibilities relating to this information. Among other things, FinCEN is responsible for securing this sensitive information and auditing its use; networking with disparate agencies accessing the information to ensure more robust investigation and ensuring that investigations do not overlap; and collecting and providing feedback and other information to the entities reporting the information—the financial industry—so that reporting can be better and more relevant for law enforcement.

Currently, under a legacy process that predates FinCEN, Bank Secrecy Act reports are collected by the Internal Revenue Service's Detroit Computing Center and are housed in an IBM IDMS mainframe environment incorporating 12 hierarchical databases. Most persons access the data through a "gateway" connection. While the IRS is currently converting the data to a "DB2" relational format, the data on the mainframe system in Detroit is not currently kept in a relational database, so search capabilities are limited for persons and entities that access Bank Secrecy Act information through that system. Because of the limitations of this system, FinCEN devotes a significant portion of its analytic resources to data retrieval for many of its law enforcement customers. As a result of this system, FinCEN downloads a duplicate copy of the Bank Secrecy Act database every night to other systems and into programs that provide relational data mining and analytical capabilities.

FinCEN is not the only entity that downloads all or part of the Bank Secrecy Act data from the Detroit Computing Center. Under legacy arrangements that pre-date FinCEN's current leadership, Suspicious Activity Reports (SARs) filed by depository institutions are downloaded directly from the IRS's Detroit Computing Center to the Federal Bureau of Investigation and United States Secret Service. Bank Secrecy Act information is also downloaded to the Treasury Enforcement Communications System (TECS), which was maintained by the former U.S. Customs Service and is now maintained by the Department of Homeland Security (DHS). Agencies with access to TECS (e.g., DHS's Immigration and Customs Enforcement, DHS's Customs and Border Protection, DOJ's Bureau of Alcohol, Tobacco, Firearms and Explosives, etc.) generally access Bank Secrecy Act information through that system. FinCEN has a limited ability to network the use of the data by those who download it since it is entirely dependent on manual feedback on the use of the data, which is difficult to obtain. Moreover, auditing the use of the data is far more difficult since it depends on manual reviews combined with the tracking system in place at the independent system. Simply put, currently FinCEN cannot fully meet any of its statu-

tory responsibilities relating to the data utilizing the current system and processes in place.

The systems and processes contemplated in the BSA Direct initiative will allow FinCEN to not only meet these responsibilities, but will provide law enforcement, regulators and FinCEN a modern, user-friendly environment to mine and analyze BSA data. The heart of the BSA Direct initiative is a secure data warehouse to consolidate the Bank Secrecy Act information into a single, integrated data set. Users will have a flexible and robust query system accessible through an intuitive web-based interface. This system will provide access, including secure web access, to Bank Secrecy Act information with capabilities that allow end users to perform ad hoc as well as pre-defined queries and reporting. Users will gain easier, faster data access and enhanced ability to query and analyze Bank Secrecy Act information, and FinCEN will have tools to control and audit the use of this sensitive information, network with agencies that are using the data, and provide better feedback to the financial industry about the use of the data, which will lead to more relevant reporting. FinCEN provides analytic products—both tactical and strategic—to appropriate law enforcement customers. FinCEN also administers a process under Section 314 of the USA PATRIOT Act that permits law enforcement to submit requests to financial institutions for transactional and account information in certain cases. A particular institution indicates whether it has such information and that information is provided to law enforcement. FinCEN also maintains some general information for law enforcement on its public web-site and will provide more and better information to law enforcement through BSA Direct.

FinCEN also provides access to Bank Secrecy Act data. Legacy processes and inadequate data retrieval capabilities currently result in this data being provided to Federal, State and local law enforcement in several ways:

- Through direct case support from a FinCEN analyst.
- Through “Platform” support, whereby law enforcement agencies may send personnel to FinCEN to use its technical and analytical resources to work their agency’s respective cases on an as needed basis.
- Through “Gateway,” which provides direct, dial-in access to Bank Secrecy Data housed at the IRS’s Detroit Computing Center.
- To certain entities, through wholesale direct downloads of all or part of the Bank Secrecy Act data from the Detroit Computing Center. Direct downloads are currently provided to:
 - The Federal Bureau of Investigation and United States Secret Service receive wholesale downloads of suspicious activity reports filed by depository institutions.
 - A wholesale download of all Bank Secrecy Act information is made into the Treasury Enforcement Communications System (TECS). TECS, which was previously administered by the former U.S. Customs Service, is now administered by the Department of Homeland Security. Various law enforcement entities have access to TECS.

Question. Is this how the law requires the system to work?

Answer. The Bank Secrecy Act, as amended by the USA PATRIOT Act, does not specify any particular method or limitation on the delivery of Bank Secrecy Act information. The Bank Secrecy Act requires that the purpose of any request for information must be for an authorized purpose—criminal, tax, regulatory or intelligence activities relating to terrorism. Section 361 of the USA PATRIOT Act requires FinCEN to maintain a government-wide data access network with access in accordance with applicable legal requirements, and further requires FinCEN to develop appropriate standards and guidelines governing who is to be given access, what limits are to be imposed on the use of the information, and how the exercise of constitutional rights is to be protected.

In accordance with these statutory mandates, FinCEN grants access only for purposes authorized by the Bank Secrecy Act (criminal, tax, regulatory, intelligence activity directed at counter-terrorism) and strictly controls dissemination of the information contained in the reports. FinCEN has met this statutory mandate in the creation of the “Gateway” system by entering into agreements for access and establishing the capability to monitor and audit each query. Currently, FinCEN does not have the capability to audit entities that receive wholesale downloads of data, which is one reason why FinCEN is placing such a high priority on the development of BSA Direct. The BSA Direct initiative encompasses systems and processes that will significantly alter the way Bank Secrecy Act information is provided to law enforcement and the regulators that access the information. It will provide those entities, including FinCEN, with state of the art data search tools in a robust user-friendly environment. Users will be able to search Bank Secrecy Act information faster and better, and will be able to do more with the data than they currently can. Eventu-

ally, sophisticated data mining, geographic and other analytic tools will be added to the environment, which will add to the value of the Bank Secrecy Act information. Finally, the initiative will help free FinCEN analytic resources to focus on more complex and strategic analysis of the financing of terror, money laundering and other illicit finance. To better understand the specific functionality this initiative will provide to FinCEN, it is important to understand the way Bank Secrecy Act information is currently managed, analyzed and disseminated.

FinCEN is the delegated administrator of the Bank Secrecy Act, a regulatory statute designed to deter, prevent and address money laundering and illicit finance, including the financing of terrorism. The keystone of the Bank Secrecy Act is a reporting regime under which financial institutions report to the Federal Government certain information—large cash transactions or suspicious activity. Over 13 million Bank Secrecy Act reports are filed each year by more than 200,000 U.S. financial institutions, providing invaluable information to detect and prevent financial crimes. FinCEN is responsible for ensuring that information is collected, securely housed, analyzed and shared with law enforcement. Amendments to the Bank Secrecy Act by the USA PATRIOT Act sharpened FinCEN's responsibilities relating to this information. Among other things, FinCEN is responsible for securing this sensitive information and auditing its use; networking with disparate agencies accessing the information to ensure more robust investigation and ensuring that investigations do not overlap; and collecting and providing feedback and other information to the entities reporting the information—the financial industry—so that reporting can be better and more relevant for law enforcement.

Currently, under a legacy process that predates FinCEN, Bank Secrecy Act reports are collected by the Internal Revenue Service's Detroit Computing Center and are housed in an IBM IDMS mainframe environment incorporating 12 hierarchical databases. Most persons access the data through a "gateway" connection. While the IRS is currently converting the data to a "DB2" relational format, the data on the mainframe system in Detroit is not currently kept in a relational database, so search capabilities are limited for persons and entities that access Bank Secrecy Act information through that system. Because of the limitations of this system, FinCEN devotes a significant portion of its analytic resources to data retrieval for many of its law enforcement customers. As a result of this system, FinCEN downloads a duplicate copy of the Bank Secrecy Act database every night to other systems and into programs that provide relational data mining and analytical capabilities.

FinCEN is not the only entity that downloads all or part of the Bank Secrecy Act data from the Detroit Computing Center. Under legacy arrangements that pre-date FinCEN's current leadership, Suspicious Activity Reports (SARs) filed by depository institutions are downloaded directly from the IRS' Detroit Computing Center to the Federal Bureau of Investigation and United States Secret Service. Bank Secrecy Act information is also downloaded to the Treasury Enforcement Communications System (TECS), which was maintained by the former U.S. Customs Service and is now maintained by the Department of Homeland Security (DHS). Agencies with access to TECS (e.g., DHS's Immigration and Customs Enforcement, DHS's Customs and Border Protection, DOJ's Bureau of Alcohol, Tobacco, Firearms and Explosives, etc.) generally access Bank Secrecy Act information through that system. FinCEN has a limited ability to network the use of the data by those who download it since it is entirely dependent on manual feedback on the use of the data, which is difficult to obtain. Moreover, auditing the use of the data is far more difficult since it depends on manual reviews combined with the tracking system in place at the independent system. Simply put, currently FinCEN cannot fully meet any of its statutory responsibilities relating to the data utilizing the current system and processes in place.

The systems and processes contemplated in the BSA Direct initiative will allow FinCEN to not only meet these responsibilities, but will provide law enforcement, regulators and FinCEN a modern, user-friendly environment to mine and analyze BSA data. The heart of the BSA Direct initiative is a secure data warehouse to consolidate the Bank Secrecy Act information into a single, integrated data set. Users will have a flexible and robust query system accessible through an intuitive web-based interface. This system will provide access, including secure web access, to Bank Secrecy Act information with capabilities that allow end users to perform ad hoc as well as pre-defined queries and reporting. Users will gain easier, faster data access and enhanced ability to query and analyze Bank Secrecy Act information, and FinCEN will have tools to control and audit the use of this sensitive information, network with agencies that are using the data, and provide better feedback to the financial industry about the use of the data, which will lead to more relevant reporting.

The full scope and detail of the functionality will be more fully determined as a result of the user requirements analyses in the first months of the project. However, the following examples identify the types of capabilities that BSA Direct will afford FinCEN and its customers that they presently do not have:

- The automated capability for FinCEN to control and audit the use of all persons accessing Bank Secrecy Act information.
- The capability, through an alert system, for FinCEN to “network” all users of Bank Secrecy Act information that “hit” the same data, or appear to be analyzing the same information.
- The capability to analyze law enforcement’s use of the data to provide meaningful feedback to the financial industry, which will result in better reporting.
- The capability to develop sophisticated filer profiles for financial industry members to help FinCEN and the regulators target entities for compliance examinations as well as the ability to be notified automatically by the system when there is a significant filing anomaly.
- An intuitive interface to enable users to query data with little or no training, and with strong, context-sensitive on-line help.
- Users will be able to keep and view a list of their prior queries.
- Managers in organizations will be better able to audit and manage the use of the data by their subordinate users.
- Users will be able to schedule a particular query to re-run on a schedule set by the user.
- Users will be able to customize query output, i.e., define what columns of information are displayed, rearrange the order of the columns, and then save that order as a personal default view.
- Users will have the ability to sort, filter, and aggregate columns of data.
- Users will be able to run “batch queries,” e.g., social security numbers from all bankruptcy filings 6 months ago against all Bank Secrecy Act filings in the last year.
- Users will be able to create customized queries and reports.
- A geographic mapping tool will provide information to show the geographic significance of Bank Secrecy Act data.
- Users will have the capability to pre-schedule queries and receive reports on a timetable scheduled by users.
- Users will be able to download results into popular formats, e.g., Word, Excel, Analysts Notebook, etc.

Question. How does FinCEN audit information requested if there is no formal request and delivery system?

Answer. The Bank Secrecy Act, as amended by the USA PATRIOT Act, does not specify any particular method or limitation on the delivery of Bank Secrecy Act information. The Bank Secrecy Act requires that the purpose of any request for information must be for an authorized purpose—criminal, tax, regulatory or intelligence activities relating to terrorism. Section 361 of the USA PATRIOT Act requires FinCEN to maintain a government-wide data access network with access in accordance with applicable legal requirements, and further requires FinCEN to develop appropriate standards and guidelines governing who is to be given access, what limits are to be imposed on the use of the information, and how the exercise of constitutional rights is to be protected.

In accordance with these statutory mandates, FinCEN grants access only for purposes authorized by the Bank Secrecy Act (criminal, tax, regulatory, intelligence activity directed at counter-terrorism) and strictly controls dissemination of the information contained in the reports. FinCEN has met this statutory mandate in the creation of the “Gateway” system by entering into agreements for access and establishing the capability to monitor and audit each query. Currently, FinCEN does not have the capability to audit entities that receive wholesale downloads of data, which is one reason why FinCEN is placing such a high priority on the development of BSA Direct. The BSA Direct initiative encompasses systems and processes that will significantly alter the way Bank Secrecy Act information is provided to law enforcement and the regulators that access the information. It will provide those entities, including FinCEN, with state of the art data search tools in a robust user-friendly environment. Users will be able to search Bank Secrecy Act information faster and better, and will be able to do more with the data than they currently can. Eventually, sophisticated data mining, geographic and other analytic tools will be added to the environment, which will add to the value of the Bank Secrecy Act information. Finally, the initiative will help free FinCEN analytic resources to focus on more complex and strategic analysis of the financing of terror, money laundering and other illicit finance. To better understand the specific functionality this initia-

tive will provide to FinCEN, it is important to understand the way Bank Secrecy Act information is currently managed, analyzed and disseminated.

FinCEN is the delegated administrator of the Bank Secrecy Act, a regulatory statute designed to deter, prevent and address money laundering and illicit finance, including the financing of terrorism. The keystone of the Bank Secrecy Act is a reporting regime under which financial institutions report to the Federal Government certain information—large cash transactions or suspicious activity. Over 13 million Bank Secrecy Act reports are filed each year by more than 200,000 U.S. financial institutions, providing invaluable information to detect and prevent financial crimes. FinCEN is responsible for ensuring that information is collected, securely housed, analyzed and shared with law enforcement. Amendments to the Bank Secrecy Act by the USA PATRIOT Act sharpened FinCEN's responsibilities relating to this information. Among other things, FinCEN is responsible for securing this sensitive information and auditing its use; networking with disparate agencies accessing the information to ensure more robust investigation and ensuring that investigations do not overlap; and collecting and providing feedback and other information to the entities reporting the information—the financial industry—so that reporting can be better and more relevant for law enforcement.

Currently, under a legacy process that predates FinCEN, Bank Secrecy Act reports are collected by the Internal Revenue Service's Detroit Computing Center and are housed in an IBM IDMS mainframe environment incorporating 12 hierarchical databases. Most persons access the data through a "gateway" connection. While the IRS is currently converting the data to a "DB2" relational format, the data on the mainframe system in Detroit is not currently kept in a relational database, so search capabilities are limited for persons and entities that access Bank Secrecy Act information through that system. Because of the limitations of this system, FinCEN devotes a significant portion of its analytic resources to data retrieval for many of its law enforcement customers. As a result of this system, FinCEN downloads a duplicate copy of the Bank Secrecy Act database every night to other systems and into programs that provide relational data mining and analytical capabilities.

FinCEN is not the only entity that downloads all or part of the Bank Secrecy Act data from the Detroit Computing Center. Under legacy arrangements that pre-date FinCEN's current leadership, Suspicious Activity Reports (SARs) filed by depository institutions are downloaded directly from the IRS's Detroit Computing Center to the Federal Bureau of Investigation and United States Secret Service. Bank Secrecy Act information is also downloaded to the Treasury Enforcement Communications System (TECS), which was maintained by the former U.S. Customs Service and is now maintained by the Department of Homeland Security (DHS). Agencies with access to TECS (e.g., DHS's Immigration and Customs Enforcement, DHS's Customs and Border Protection, DOJ's Bureau of Alcohol, Tobacco, Firearms and Explosives, etc.) generally access Bank Secrecy Act information through that system. FinCEN has a limited ability to network the use of the data by those who download it since it is entirely dependent on manual feedback on the use of the data, which is difficult to obtain. Moreover, auditing the use of the data is far more difficult since it depends on manual reviews combined with the tracking system in place at the independent system. Simply put, currently FinCEN cannot fully meet any of its statutory responsibilities relating to the data utilizing the current system and processes in place.

The systems and processes contemplated in the BSA Direct initiative will allow FinCEN to not only meet these responsibilities, but will provide law enforcement, regulators and FinCEN a modern, user-friendly environment to mine and analyze BSA data. The heart of the BSA Direct initiative is a secure data warehouse to consolidate the Bank Secrecy Act information into a single, integrated data set. Users will have a flexible and robust query system accessible through an intuitive web-based interface. This system will provide access, including secure web access, to Bank Secrecy Act information with capabilities that allow end users to perform ad hoc as well as pre-defined queries and reporting. Users will gain easier, faster data access and enhanced ability to query and analyze Bank Secrecy Act information, and FinCEN will have tools to control and audit the use of this sensitive information, network with agencies that are using the data, and provide better feedback to the financial industry about the use of the data, which will lead to more relevant reporting.

The full scope and detail of the functionality will be more fully determined as a result of the user requirements analyses in the first months of the project. However, the following examples identify the types of capabilities that BSA Direct will afford FinCEN and its customers that they presently do not have:

- The automated capability for FinCEN to control and audit the use of all persons accessing Bank Secrecy Act information.

- The capability, through an alert system, for FinCEN to “network” all users of Bank Secrecy Act information that “hit” the same data, or appear to be analyzing the same information.
- The capability to analyze law enforcement’s use of the data to provide meaningful feedback to the financial industry, which will result in better reporting.
- The capability to develop sophisticated filer profiles for financial industry members to help FinCEN and the regulators target entities for compliance examinations as well as the ability to be notified automatically by the system when there is a significant filing anomaly.
- An intuitive interface to enable users to query data with little or no training, and with strong, context-sensitive on-line help.
- Users will be able to keep and view a list of their prior queries.
- Managers in organizations will be better able to audit and manage the use of the data by their subordinate users.
- Users will be able to schedule a particular query to re-run on a schedule set by the user.
- Users will be able to customize query output, i.e., define what columns of information are displayed, rearrange the order of the columns, and then save that order as a personal default view.
- Users will have the ability to sort, filter, and aggregate columns of data.
- Users will be able to run “batch queries,” e.g., social security numbers from all bankruptcy filings 6 months ago against all Bank Secrecy Act filings in the last year.
- Users will be able to create customized queries and reports.
- A geographic mapping tool will provide information to show the geographic significance of Bank Secrecy Act data.
- Users will have the capability to pre-schedule queries and receive reports on a timetable scheduled by users.
- Users will be able to download results into popular formats, e.g., Word, Excel, Analysts Notebook, etc.

Question. Does this raise privacy concerns?

Answer. While FinCEN is not providing these few law enforcement entities with information to which they are not entitled or couldn’t otherwise receive, the fact remains that FinCEN is very limited in its ability to audit the use or guarantee the security of this information. Important privacy interests associated with Bank Secrecy Act information will be better protected once BSA Direct is built and implemented.

Question. There are currently at least five other financial intelligence units in the Federal government outside of Treasury that download Bank Secrecy Act data wholesale from FinCEN. If FinCEN is just the delivery system for BSA data, what is its role other than to be a library? What analytics are occurring at FinCEN that are not occurring at the Bureau of Immigration and Customs Enforcement, the Federal Bureau of Investigation, the Central Intelligence Agency, or the United States Secret Service? If everyone has these databases with all the Bank Secrecy Act data, what is the value added by FinCEN?

Answer. While the provision of Bank Secrecy Act information to law enforcement is a key aspect to FinCEN’s mission, FinCEN is much more than a library. It has been and continues to be a source of unequalled analytic expertise on financial information, particularly information reported under the Bank Secrecy Act. It is recognized throughout the world for its expertise in studying and exploiting financial information.

Other law enforcement agencies have come to recognize the importance of exploiting financial information—a fact that is at least, in part, attributable to FinCEN’s work. From our point of view, the proliferation of financial analytical units in law enforcement agencies is a good thing. It means that exploitation of financial information, which is a key element to defining and dismantling criminal and terrorist organizations, will continue to grow. It also means that FinCEN will be freer to focus its analytic resources on niche areas as well as tactical and strategic analytical projects that are more sophisticated. As for the niche areas, FinCEN has unique responsibilities that differentiate it from any other entity working with financial data:

- Helping Financial Institutions to understand, assess and address the risk of money laundering, the financing of terror and other illicit finance.*—FinCEN is the administrator of the Bank Secrecy Act. It is uniquely positioned, and required by statute, to provide feedback to the financial industry about the use of this data. FinCEN will focus on providing information to the financial industry that will enable it to better target those issues and organizations for reporting. This will result in better and more relevant reporting for law enforcement,

and will fulfill an important mandate of the USA PATRIOT Act to establish a communication channel between the government and private industry.

—*Leveraging FinCEN's counterpart financial intelligence units around the world.*—FinCEN is in the forefront of international efforts to develop new Financial Intelligence Units (FIUs) and enhance the capabilities of existing FIUs. FinCEN is also a founding member of the Egmont Group, an informal organization of 84 financial intelligence units around the world that share tactical and strategic financial information for the benefit of law enforcement and other competent authorities. Furthermore, the Egmont Group's Secure Website offers member FIUs the ability to rapidly share and broadly disseminate such information. FinCEN will focus analytic effort on supporting those relationships and making the financial intelligence units more productive and relevant in addressing what is a global problem.

—*Focusing FinCEN analytic effort on the Strategic.*—FinCEN will also focus much of its analytic resources on strategic projects. Strategic studies of new financial industry products and trends, methods of illicit finance, and ways to address systemic weaknesses that lead to financial crime. FinCEN will also engage more in predictive analysis—trying to predict where the next problems will arise in the financial system.

Addressing these three issues does not mean that FinCEN will not participate in traditional tactical analysis in support of law enforcement, but as law enforcement agencies add analytical units to support their missions, FinCEN will be able to better focus on these important niche areas.

Question. FinCEN issues regulations under Title 31 related to the Bank Secrecy Act and the Patriot Act. Please provide a detailed description of the joint training that occurs between FinCEN and the Internal Revenue Service related to the intricacies of those regulations, especially when dealing with the financial community.

Answer. FinCEN has worked extensively with the IRS SB/SE Taxpayer Education and Communication (TEC) organization to conduct joint training of IRS examiners. FinCEN has conducted joint training of IRS examiners on various Title 31 and Patriot Act requirements at the last two IRS Examiner training classes, held in Seattle and in Indianapolis. FinCEN will be conducting training at an upcoming meeting of IRS supervisory level personnel who have Bank Secrecy Act examination responsibility. In addition, FinCEN is working with IRS to revise the IRS IRM Manual that guides the conduct of Bank Secrecy Act examinations, and is used as a training template for its Bank Secrecy Act examiners as well.

The cooperation between FinCEN and IRS on Bank Secrecy Act training extends to seminars conducted for the financial community as well. FinCEN works with the IRS SB/SE TEC to coordinate the content of presentations given by the IRS to provide education and outreach to the financial industries it is delegated to regulate. For example, FinCEN and IRS gave presentations to the Money Transmitter Regulators Association (MTRA) conference, an annual forum attended by money transmitters, their service providers, and State regulators in September 2003 on MSB registration and Suspicious Activity Report (SARs) requirements and issues.

Going forward, FinCEN will continue to use tools such as the Anti Money Laundering monthly contact report provided by IRS TEC, which provides information on upcoming outreach opportunities, to coordinate and supervise the delivery of education on Title 31 and Patriot Act requirements to the financial community.

Question. The costs of implementing Bank Secrecy Act are significant to the financial industry. Who is responsible for communicating with the financial industry to explain what their data is being used for?

Answer. FinCEN, as administrator of the Bank Secrecy Act and as mandated in Section 361 of the USA PATRIOT Act, is responsible for communicating with the financial industry. While this is an important aspect of FinCEN's mission, it also leverages the assets of the Federal functional bank regulators, the Securities Exchange Commission, the Commodity Futures Trading Commission, and the Internal Revenue Service to help with this effort.

Question. Does Treasury meet with the financial community to explain trends or the means of exploitation of the financial system?

Answer. Treasury's FinCEN interacts extensively with the financial community through many different venues such as:

- Participation in numerous conferences and seminars being held throughout the year across the country;
- Participation in compliance training workshops;
- Regular meetings with the Bank Secrecy Act Advisory Group and its subcommittees;
- Daily interaction with bank officials throughout the country regarding various aspects of Bank Secrecy Act compliance;

- Customer Surveys;
- Publications such as The Suspicious Activity Review intended to provide feedback and guidance to financial institutions on Bank Secrecy Act reporting and anti money laundering requirements; and,
- Website interaction through posting of regulations, guidance, comment letters and other regulatory-related materials.

Question. Does Treasury investigate recent money laundering arrests to determine how criminals are evolving to exploit the U.S. financial system? Does Treasury or FinCEN send people to every major money laundering sting to determine how the organization was set up and how it exploited the financial system? This information could then be given to the financial community to alert it to recent trends. Does this activity occur? If not, should it?

Answer. FinCEN directly communicates with law enforcement on a daily basis to obtain current information on money laundering cases. Information received from this dialogue helps FinCEN better understand money laundering and terrorist financing. While FinCEN does not have a specific program directed at debriefing money laundering sting operations, as a practical matter, it captures much of this information through its on-going dialogue with law enforcement.

Question. How many cases were analyzed in calendar year 2003 and how much of that information was passed to the financial community? Has the financial community been surveyed to see if the information was helpful?

Answer. In fiscal year 2003 (FinCEN statistics are kept by fiscal year), FinCEN provided support for approximately 5,000 requests received from law enforcement. In the majority of these cases, FinCEN helped retrieve Bank Secrecy Act information. FinCEN's new leadership has recognized the need to keep better statistics to better capture the work that FinCEN is accomplishing.

FinCEN, independent of providing analytical support to law enforcement, conducts analysis of the Bank Secrecy Act information to identify trends and patterns. Some of this information is published semiannually in the Suspicious Activity Review—Trends, Tips & Issues. As mentioned above, this Review is produced based on continuing dialogue and close collaboration among our Nation's financial institutions, law enforcement officials and regulatory agencies in order to provide meaningful information regarding the preparation, use and value of suspicious activity reports filed by financial institutions. Each issue of this publication contains a Feedback Form for the financial industry to complete and return to FinCEN and the feedback FinCEN has received has been constructive and generally quite positive. To date, FinCEN has not surveyed the financial industry to determine satisfaction with FinCEN feedback, although that is something FinCEN's new leadership is considering establishing as a benchmark.

Question. FinCEN's budget declares a 12.7 percent increase for fighting terrorism. How is this number obtained? Looking at the administration's budget submission in detail, the real increase is 2.7 percent, or \$1.53 million, to fight the war on terror.

—Mandatory cost increases equal \$1.76 million.

—Program cost annualization for fiscal year 2004 new initiatives equals \$1.52 million.

—Transfer from the IRS for BSA work that is already done equals \$2.5 million.

Answer. The 12.7 percent increase was calculated by adding the cost of program increases (\$1.533 million), program annualizations (\$1.522 million), cost increases (\$1.716 million), and the transfer from the Internal Revenue Service for the BSA Direct System (\$2.5 million)—totaling an overall increase of \$7.271 million over fiscal year 2004.

Question. What types of outreach programs does FinCEN have with the financial community?

Answer. FinCEN is in daily contact with the financial industries it helps regulate. First, and perhaps most importantly, through the process created pursuant to Section 314(a) of the USA PATRIOT Act, FinCEN now routinely contacts thousands of financial institutions to relay important information from law enforcement about individuals and entities that may be relevant to terrorism or significant money laundering investigations. FinCEN plans to expand this process and begin sharing information with the financial community that will enable industry reports to be more relevant. Also, FinCEN has encouraged the voluntary sharing of information between certain financial institutions related to possible terrorism or money laundering by implementing regulations under Section 314(b) of the USA PATRIOT Act.

Since September 2001, FinCEN has maintained a hotline for financial institutions to voluntarily report suspected terrorist financing activity. FinCEN then expedites this information to appropriate law enforcement agencies. Since inception of this hotline, FinCEN has referred more than 850 tips to law enforcement.

Treasury's FinCEN interacts extensively with the financial community through many different venues such as:

- Participation in numerous conferences and seminars being held throughout the year across the country;
- Participation in compliance training workshops;
- Regular meetings with the Bank Secrecy Act Advisory Group and its subcommittees;
- Daily interaction with bank officials throughout the country regarding various aspects of Bank Secrecy Act compliance;
- Customer Surveys;
- Publications such as The Suspicious Activity Review intended to provide feedback and guidance to financial institutions on Bank Secrecy Act reporting and anti money laundering requirements; and,
- Website interaction through posting of regulations, guidance, comment letters and other regulatory-related materials.

Question. Has FinCEN done any surveys or interviews with the financial community to better understand what their needs and concerns are?

Answer. Yes. For example, when FinCEN adopted its rule requiring money services businesses to register, FinCEN conducted an extensive industry outreach program, including conducting focus groups, sending surveys and holding meetings with individual companies, trade associations, State regulators, and law enforcement to discuss implementation of the rule and solicit input on guidance. FinCEN also developed reference and guidance products, including posters, "take-one" cards, Quick Reference Guides on Bank Secrecy Act and suspicious activity reporting, an Anti-Money Laundering Prevention Guide, a suspicious activity reporting training video, and an interactive CD-ROM for MSBs. All of these materials are free and available to the public through FinCEN's website at www.msb.gov.

In another example, FinCEN conducted a survey of financial institutions filing Currency Transaction Reports (CTRs) in order to produce a report to Congress in 2002 as required by the USA PATRIOT Act. That report sought to analyze financial institutions' use of exemptions from the CTR filing requirement.

MINT/BEP MERGER PROPOSAL

Question. Please provide a detailed accounting of how the study to merge the Mint and BEP was funded.

Answer. The cost, which was funded using Interagency Agreements, was evenly split between the Mint and the Bureau of Engraving and Printing.

Question. How many phases are there to this contract to study a merger?

Answer. Three phases were identified in the Request for Proposal:

- 1. Develop a business case;
- 2. Facilitate in developing a short and long-term approach; and
- 3. Advise on preparation of report roll-out.

The first phase was to identify efficiencies and develop the business case to support those efficiencies identified in the study. Under the second phase, the government has exercised its option to have LMI's continued assistance in the analysis of the options. The government also has an option to have LMI assist in preparing the report to OMB.

Question. What accounts were used at the BEP and the Mint to pay for the study?

Answer. The study was funded through the BEP revolving fund and the Mint Public Enterprise Fund. The actual costs were charged to the line items—consulting services provided by a non-government entity. Both the Mint and the BEP allocate resources to assess changing market conditions and management improvements.

Question. Does Treasury believe that this is a proper use of the funds in these accounts?

Answer. The Treasury Department continues to look for taxpayer savings and efficiencies in all its bureaus. Due to changing market conditions, review of the Treasury Department's structure is necessary to best serve the public. By studying the structure of the U.S. Mint and Bureau of Engraving and Printing, the Treasury Department ensures effective use of taxpayer resources.

Question. Please provide the parameters provided to the contractor to conduct the study.

Answer. The Request for Proposal (RFP) outlined the parameters and was provided to IBM, Booz Allen Hamilton, and LMI. The RFP provided to these three bidders is attached.

DOX-04-0058

PRICING SCHEDULE

The contractor shall furnish all labor, materials, supplies, services and supervision necessary for consulting services to study Mint/BEP efficiencies. The contractor shall perform the services as set forth in the attached Statement of Work (SOW).

The Government will award a single order resulting from this Statement of Work to the responsible offeror whose offer, conforming to the Statement of Work will provide the best overall value/benefit to the Government based on a combination of management approach, experience of proposed key personnel, past performance and price.

Along with this pricing schedule, offerors shall also furnish a copy of their GSA Schedule prices from which their pricing was obtained.

Offerors shall propose a price for each of the four line items listed below and as described in Section 2.1 of the SOW. Line Items 0001 and 0002 shall be priced on a fixed price basis. Line Items 0003 and 0004 shall be priced on a labor hour basis. Offerors shall provide a breakdown of the labor categories and labor rates to be used to complete these two line items. Prices for Line Items 0003 and 0004 shall be based on 200 hours.

<u>LINE ITEM NO.</u>	<u>DESCRIPTION</u>	<u>PRICE</u>
0001	Facilities	\$ <u>164,257.00</u>
0002	Operations	\$ <u>134,143.00</u>
0003	Assist Treasury Senior Management (Labor Hour – provide labor categories & rates)	NTE \$ <u>14,008.00</u>
0004	Integrate findings from Finance & Legislative Issues (Labor Hour – provide labor categories & rates)	NTE \$ <u>12,862.00</u>
TOTAL PRICE		\$ <u>325,270.00</u>

DOX-04-0058

**BUREAU OF ENGRAVING AND PRINTING
STATEMENT OF WORK
CONSULTING SERVICES TO STUDY
BEP-MINT MERGER OPTIONS**

1.0 GENERAL INFORMATION

The Department of the Treasury has a requirement for a contractor to provide consulting services to study Mint/BEP efficiencies. Treasury needs to address OMB expectations on Mint/BEP that were raised in the OMB FY 2005 Budget passback. Treasury's goal is to have an overview document outlining potential cost savings associated with Mint/BEP efficiencies to circulate to members of Congress and their staff by July 1, 2004.

2.0 SCOPE OF WORK

Treasury seeks to address OMB concerns with an inclusive approach that stresses augmenting the business case for Mint/BEP efficiencies with a discussion of legislative barriers and within the context of current "good government" initiatives.

Treasury wants to be responsive to OMB expectations. Treasury is seeking a contractor to develop options to improve the effectiveness and efficiency of both organizations, which will include the analysis of advantages/disadvantages and cost savings when combining, consolidating, streamlining and/or modernizing some of the operations, locations and headquarters of both organizations.

2.1 Tasks

The contractor shall develop and analyze the following:

- 1) Facilities – the degree to which BEP and MINT can obtain economies, efficiencies and savings through modernization and/or co-location of facilities and other best practice options. This analysis is to include alternative uses for facilities that may remain open after optimization/co-location of facilities.
- 2) Operations – which corporate functions and operational components can yield savings and optimized organization through shared services, co-location, and /or other best practice options. Should space/locations remain open after optimization, include alternative use analysis for these

DOX-04-0058

locations.

- 3) (Optional Task) Assist Treasury senior management in analyzing/ranking the facilities and operations findings
- 4) (Optional Task) Integrate findings from Finance and Legislative Issues review into the July report to OMB.

2.2 Treasury Support

Treasury staff will support the effort and take the lead on assessing:

- 1) Finance – conduct a review and develop an understanding of MINT/BEP authorities, how they receive funding and what laws and regulations govern their management and operation. Develop understanding on how these laws, regulations and authorities impact potentially attractive business case options for realizing savings, efficiencies and effectiveness.
- 2) Legislative Issues – Review and understand the legislative issues that arise from the Facilities and Operations options that are developed. Document these issues for each option. Each option will have differing requirements for legislation ranging from no legislative changes to changes to the enabling legislation for both entities.

3.0 SMALL BUSINESSES

It is also important to Treasury that small business be an integral part of our decision process. Treasury, for this contract, is establishing a goal of 15% of the work going to small business. The contractor shall outline the role of the small business in the "Management Approach" section of the evaluation factors.

4.0 DELIVERABLES

4.1 Deliverables Description

Unless specified otherwise, all deliverables shall be provided to the COTR in electronic format (Word and/or Excel).

Deliverables for this requirement are as follows:

Kick-Off Meeting	NLT one week after award
1st Draft	NLT one month after award
Final Draft	NLT two months after award
Optional – Integrate all tasks	
Optional – Prepare OMB Recommendation	

DOX-04-0058

5.0 MILESTONES

The contractor shall adhere to the following milestones for this requirement.

- a. Pre-proposal conference – 2/19/04
- b. Proposal due – 2/25/04
- c. Oral Presentation – 2/26/04

6.0 PRE-PROPOSAL CONFERENCE

Contractor shall be required to attend a Pre-Proposal Conference which has been scheduled for Thursday, February 19, 2004. Contractors will be notified of time and place of conference at a later date.

7.0 PERIOD OF PERFORMANCE

This project will operate within an extremely tight time frame. As noted above, the President's Budget for 2004 has directed that this study shall be completed, including all necessary review and coordination by July 1, 2004. The period of performance for receipt of the final draft shall from date of contract award to two months after the date of contract award. It may be necessary for the contractor to provide the services listed in the Optional Tasks, (Section 2.1) above, beyond the Government's receipt of the final draft. The period of performance for the Optional Tasks is unknown at this time.

8.0 GOVERNMENT FURNISHED MATERIALS/PROPERTY

The Government shall provide to the contractor the following:

- 1. Treasury 5 Year Strategic Plan
- 2. Budget in Brief
- 3. BEP and MINT FY 2005 Budget Documents and Annual Reports
- 4. BEP Facilities Study – July 1998
- 5. Coin and Currency (Security) GAO Study, July 2003
- 6. Coin and Currency Production GAO Study, June 1007

DOX-04-0058

9.0 CONTRACTOR FURNISHED MATERIALS/PROPERTY

The Contractor shall provide the computer hardware and software, as well as other materials and supplies necessary to complete the work listed above, as well as the reports described in this SOW.

10.0 SPECIAL CONTRACT REQUIREMENTS

The following Department of the Treasury Acquisition Regulation (DTAR) contract clauses are hereby incorporated in full text:

10.1 1052.201-70 Contracting Officer's Technical Representative (COTR) Designation And Authority (SEP 1997)

The Contracting Officer's Technical Representative (COTR) is

Jim Sullivan
Department of the Treasury
675 15th Street, Room 6133
Washington, DC 20220
Phone (202) 622-9395
Fax (202)
Electronic Mail: james.sullivan@do.treas.gov

Performance of the work under this contract shall be subject to the technical direction of the Contracting Officer's Technical Representative. The term "technical direction" is defined to include, without limitation, the following:

- a. Directions to the Contractor which redirect the contract effort, shift work emphasis between work areas or tasks, require the pursuit of certain lines of inquiry, fill in details or otherwise serve to accomplish contractual statements of work.
- b. Provision of information to the Contractor which assists in the interpretation of drawings, specifications or technical portions of the work description.
- c. Review and, where required by contract, approval of technical reports, drawings, specifications or technical information to be delivered by the Contractor to the Government under the contract.

Technical direction must be within the general scope of work stated in the contract. The COTR does not have the authority to, and may not, issue any technical direction which: (1) constitutes the assignment of any additional work outside the general scope of the contract; (2) in any manner causes an increase or decrease in the total contract cost, or time required for the contract

DOX-04-0058

performance or (3) changes any of the expressed terms, conditions or specifications of the contract.

All technical directions shall be issued in writing by the COTR or shall be confirmed by him/her in writing within 5 working days after issuance unless otherwise specified herein.

The Contractor shall proceed promptly with the performance of technical directions duly issued by the COTR in the manner prescribed by this article and within his/her authority under the provisions of this article.

If, in the opinion of the Contractor, any instruction or direction issued by the COTR is within one of the categories as defined in (1) through (3) above, the Contractor shall not proceed, but shall notify the Contracting Officer, in writing, within 5 working days after receipt of any such instruction or direction and shall request the Contracting Officer to modify the contract accordingly. Upon receiving such notification from the Contractor, the Contracting Officer shall issue an appropriate contract modification or advise the Contractor, in writing, that, in his/her opinion, the technical direction is within the scope of this article and does not constitute a change. The Contractor shall thereupon proceed immediately with the direction given. A failure of the parties to agree upon the nature of the instruction or direction, or upon the contract action to be taken with respect thereto, shall be subject to the provisions of the contract clause entitled Contract Terms and Conditions—Commercial Items, FAR 52.212-4(d).

10.2 Security Requirements (SEP 2002)

The Contractor shall ensure that all applicable personnel working on this project, including subcontractors, meet the following security requirements for contractors to protect against unauthorized disclosure of Sensitive But Unclassified (SBU) data. SBU data include but are not limited to, information that is protected from disclosure by the Confidential Information Protection and Statistical Efficiency Act of 2002, Pub. L. 107-347, 116 Stat. 2962, codified at 44 U.S.C. 3501, note ("the Act"). (See Section 16.0, CONFIDENTIALITY.)

- 1) All applicable personnel shall be United States citizens or have lawful permanent resident status.
- 2) All applicable personnel shall be subject to a National Agency Check, Law and Credit (NACLC) investigation in accordance with the Department of the Treasury Security Manual (TD P 71-10). Applicable personnel shall not begin working on this Contract until all security forms have been properly completed and submitted to the Contracting Officer's Technical Representative for processing, as follows:

DOX-04-0058

- a) Completed fingerprint cards
- b) Non-disclosure Agreement
- c) Fair Credit Reporting Act Release
- d) SF 85-P, "Questionnaire for Public Trust Positions"

- 3) Applicable personnel shall wear Treasury issued identification badges when working in Government facilities.

Applicable personnel who undergo NACLC investigations that reveal, but are not limited to, the following, may be unacceptable under this contract: conviction of a felony, a crime of violence or a serious misdemeanor; a record of arrests for continuing offenses; or failure to file or pay Federal income tax. The Government reserves the right to determine if a Contractor employee assigned to a task shall continue with the task. The Contractor shall agree to remove the person assigned within one day of official notification by the Government and provide a replacement within five days. New hires or substitutions of personnel are subject to the NACLC investigation requirement.

10.3 Billing Address

Contractor will be provided complete billing address at a later date. The billing address for this Delivery Order is as follows:

Department of the Treasury
Office of Financial Management
ATTN: Angela Brown
1500 Pennsylvania Avenue, NW
650 15th Street, NW, Metropolitan Square
6th Floor, Room 6031
Washington, DC 20220
Phone: (202) 622-1032

10.4 Required Central Contractor Registration – Existing Contracts (JAN 2002)

The United States Department of the Treasury has adopted the Department of Defense's Central Contractor Registration database as its database for Contractor information. (This clause does not apply to the Treasury Bureau known as the Comptroller of the Currency.) Accordingly, the following requirements apply to this contract.

(a) Definitions. As used in this clause --

- (1) "Central Contractor Registration (CCR) database" means the primary Department of Defense (DoD) repository for contractor information required for the conduct of business with DoD.

DOX-04-0058

- (2) "Data Universal Number System (DUNS) number" means the 9-digit number assigned by Dun and Bradstreet Information Services to identify unique business entities.
 - (3) "Data Universal Numbering System+4 (DUNS+4) number" means the DUNS number assigned by Dun and Bradstreet plus a 4-digit suffix that may be assigned by a parent (controlling) business concern. This 4-digit suffix may be assigned at the discretion of the parent business concern for such purposes as identifying sub-units or affiliates of the parent business concern.
 - (4) "Registered in the CCR database" means that all mandatory information, including the DUNS number or the DUNS+4, if applicable, is in the CCR database; the DUNS number has been validated; and all edits have been successfully completed.
- (b)
- (1) The Contractor agrees to register in the CCR database within 15 calendar days of the date of this modification (see Block 16c, Date Signed, on the SF30).
 - (2) During performance and through final payment of the contract, the Contractor further agrees that (a) it will remain registered in the CCR database and (b) it will maintain its vendor record in the CCR with current, complete and accurate data.
 - (3) The Contractor agrees that, after registering in the CCR database, it shall provide notification of its registration to the contracting officer along with its DUNS number or, if applicable, its DUNS+4 number. The Contractor shall provide this confirmation within the 15 calendar day registration period specified in paragraph (b)(1) above.
 - (4) Lack of registration in the CCR database will make the Contractor ineligible to receive payments under the contract and may make the Contractor ineligible for contract renewal.
 - (5) DoD has established a goal of registering an applicant in the CCR database within 48 hours after receipt of a complete and accurate application via the Internet. However, registration of an applicant submitting an application through a method other than the Internet may take up to 30 days. Therefore, the Contractor should consider applying for registration immediately.

DOX-04-0058

- (c) The Contractor is responsible for the accuracy and completeness of the data within the CCR, and for any liability resulting from the Government's reliance on inaccurate or incomplete data. To remain registered in the CCR database after the initial registration, the Contractor is required to confirm on an annual basis that its information in the CCR database is accurate and complete.
- (d) Following the Contractor's initial registration in CCR and receipt of any Treasury Department (excluding the Comptroller of the Currency) award of a contract, purchase order, delivery order, task order, basic agreement, basic ordering agreement, or blanket purchase agreement, the Contractor must directly notify the Contracting Officer of any of its changed mandatory business data in CCR within three business days of the change. (See the CCR Handbook at www.ccr.gov for the current mandatory registration data fields, or contact the CCR Assistance Center at 888-227-2423 or 616-961-4725.)
- (e) Contractors may obtain information on registration and annual confirmation requirements via the Internet at <http://www.ccr.gov>, from the Defense Electronic Business Program Office (Defense e-Business) at contact.ccr@us.pwcglobal.com, from the CCR Assistance Center at 888-227-2423 or 616-961-4725, from the Defense Logistic Information Service at dlis_support@dlis.dia.mil.
- (f) Contractors such as some consultants and sole proprietorships that are small firms that would otherwise have no use for a Dun & Bradstreet (D&B) number, may use an alternative D&B registration method. If needing a D&B number principally for CCR registration, such a Contractor should call D&B toll-free at 800/333-0505, and clearly state that it is a very small business and simply needs a DUNS number for the purpose of CCR registration.

11.0 DESIGNATION OF GOVERNMENT CONTRACT SPECIALIST

Tammy M. McLeod, Contract Specialist, Procurement Services Division, has been assigned to administer the contractual aspects of this contract. Changes in the Statement of Work, contract cost, price, quantity, quality or delivery schedule shall be made only by the Contracting Officer by a properly executed modification. All correspondence that in any way concerns the terms or conditions of this contract shall be submitted directly to the Contract Specialist at the following address:
 Department of the Treasury
 Procurement Services Division
 1500 Pennsylvania Avenue
 1425 New York Ave., NW, 2nd Fl., Suite 2100

DOX-04-0058

Attention: Tammy M. McLeod
 Washington, DC 20220
 Telephone Number – (202) 622-3862
 FAX Number – (202) 622-4721

12.0 CONTRACT CLAUSES

12.1 52.252-2 Clauses Incorporated By Reference (FEB 1998)

All applicable contract clauses contained in the contractor's GSA Schedule contract are hereby incorporated into this delivery order by reference.

This delivery order incorporates one or more clauses by reference, with the same force and effect as if they were given in full text. Upon request, the Contracting Officer will make their full text available. Also the full text of a clause may be accessed electronically at this/these address(es):
www.arnet.gov or <http://farsite.hill.af.mil/>.

- 52.202-01 DEFINITIONS (DEC 2001)
- 52.203-03 GRATUITIES (APR 1984)
- 52.203-05 COVENANT AGAINST CONTINGENT FEES (APR 1984)
- 52.203-07 ANTI-KICKBACK PROCEDURES (JUL 1995)
- 52.203-08 CANCELLATION, RESCISSION, AND RECOVERY OF FUNDS FOR ILLEGAL OR IMPROPER ACTIVITY (JAN 1997)
- 52.203-10 PRICE OR FEE ADJUSTMENT FOR ILLEGAL OR IMPROPER ACTIVITY (JAN 1997)
- 52.203-12 LIMITATION ON PAYMENTS TO INFLUENCE CERTAIN FEDERAL TRANSACTIONS (JUN 2003)
- 52.204-04 PRINTING/COPYING DOUBLE-SIDED ON RECYCLED PAPER (AUG 2000)
- 52.204-06 DATA UNIVERSAL NUMBERING SYSTEM (DUNS) NUMBER (OCT 2003)
- 52.209-06 PROTECTING THE GOVERNMENT'S INTEREST WHEN SUBCONTRACTING WITH CONTRACTORS DEBARRED, SUSPENDED, OR PROPOSED FOR DEBARMENT (JUL 1995)
- 52.219-08 UTILIZATION OF SMALL BUSINESS CONCERNS (OCT 2000)
- 52.222-03 CONVICT LABOR (JUN 2003)
- 52.222-21 PROHIBITION OF SEGREGATED FACILITIES (FEB 1999)
- 52.222-26 EQUAL OPPORTUNITY (APR 2002)
- 52.222-35 EQUAL OPPORTUNITY FOR SPECIAL DISABLED VETERANS, VETERANS OF THE VIETNAM ERA AND OTHER ELIGIBLE VETERANS (DEC 2001)
- 52.222-36 AFFIRMATIVE ACTION FOR WORKERS WITH DISABILITIES (JUN 1998)
- 52.222-37 EMPLOYMENT REPORTS ON DISABLED VETERANS, VETERANS OF THE VIETNAM ERA AND OTHER ELIGIBLE

DOX-04-0058

VETERANS (DEC 2001)

52.223-06 DRUG-FREE WORKPLACE (MAY 2001)

52.225-13 RESTRICTIONS ON CERTAIN FOREIGN PURCHASES
(DEC 2003)

52.227-14 RIGHTS IN DATA-GENERAL (JUN 1987)

52.229-01 STATE AND LOCAL TAXES (APR 1984)

52.232-01 PAYMENTS (APR 1984)

52.232-07 PAYMENTS UNDER TIME-AND-MATERIALS AND LABOR-HOUR
CONTRACTS (DEC 2002)

52.232-09 LIMITATION ON WITHHOLDING OF PAYMENTS (APR 1984)

52.232-17 INTEREST (JUN 1996)

52.232-23 ASSIGNMENT OF CLAIMS (JAN 1986)

52.232-25 PROMPT PAYMENT (OCT 2003)

52.232-33 PAYMENT BY ELECTRONIC FUNDS TRANSFER—CENTRAL
CONTRACTOR REGISTRATION (OCT 2003)

52.233-01 DISPUTES (JUL 2002)

52.233-03 PROTEST AFTER AWARD (AUG 1996) – ALTERNATE 1
(JUN 1985)

52.237-03 CONTINUITY OF SERVICES (JAN 1991)

52.242-13 BANKRUPTCY (JUL 1995)

52.243-01 CHANGES – FIXED PRICE (AUG 1987)

52.243-03 CHANGES—TIME-AND-MATERIALS OR LABOR-HOURS
(SEP 2000)

52.245-02 GOVERNMENT PROPERTY (FIXED-PRICE CONTRACTS)
(JUN 2003)

52.245-05 GOVERNMENT PROPERTY (COST-REIMBURSEMENT, TIME-
AND-MATERIAL, OR LABOR-HOUR
CONTRACTS)(DEVIATION)(JAN 1986)

52.246-04 INSPECTION OF SERVICES – FIXED PRICE (AUG 1996)

52.246-06 INSPECTION—TIME-AND-MATERIALS AND LABOR-HOUR
(MAY 2001)

52.248-01 VALUE ENGINEERING (FEB 2000)

52.249-02 TERMINATION FOR CONVENIENCE OF THE GOVERNMENT
(FIXED PRICE) (SEP 1996)

52.249-06 TERMINATION (COST-REIMBURSEMENT) (SEP 1996)
ALTERNATE IV (SEP 1996)

52.249-08 DEFAULT (FIXED-PRICE SUPPLY AND SERVICES) (APR 1984)

52.249-14 EXCUSABLE DELAYS (APR 1984)

52.253-01 COMPUTER GENERATED FORMS (JAN 1991)

DOX-04-0058

13.0 PROPOSAL SUBMISSION

Offerors shall submit five (5) copies of their written proposal along with five (5) copies of all briefing slides to be used during the oral presentation to the Government. Offerors are limited to no more than five (5) written pages (not including the resumes and past performance information) in their proposal submittal. The key focus for the Evaluation Team will be on the information provided during the oral presentations in relation to the evaluation factors listed below. The contractor shall separate the Management Approach, Experience of Proposed Key Personnel and Past Performance information from the Price information.

14.0 EVALUATION FACTORS

The Government will evaluate the contractor's offers for (1) Management Approach, (2) Experience of Proposed Key Personnel (3) Past Performance and (4) Price. The Government will evaluate the non-price factors of Management Approach, Experience of Proposed Personnel and Past Performance separately from price. Price will not be point rated. Experience of Proposed Key Personnel is considered to be more important than Management Approach and Past Performance. Management Approach is considered to be more important than Past Performance. All non-price factors, considered separately, are more important than Price.

14.1 Management Approach

The offeror shall outline their management approach for the following:

- a. Understanding the requirement
- b. Ability to meet timeframes with a quality product
- c. Role of small business

14.2 Experience of Proposed Key Personnel

The offeror shall outline their experience in proposed key personnel for the following:

- a. Cost Modeling
- b. Government Management Improvement Efforts
- c. Redevelopment of excess plant capacity/office space
- d. OMB/Congressional budget issues

DOX-04-0058

- e. Role of the firm in government efficiency/consolidation efforts

14.3 Past Performance

Offerors shall submit to the Government three (3) references (company name and address, phone number and point of contact) for similar work as mentioned in this Statement of Work. This work must be currently active or completed within the last five (5) years. Contractors shall identify recently completed, similar projects with similar requirements that the Contractor has performed for other Federal agencies. Contractors are also encouraged to identify recently completed, similar projects undertaken for businesses in the private sector. The Government will evaluate how well the offeror performed the work described by contacting the references cited.

14.4 Price

The Government shall evaluate offers for award purposes based on prices shown in their GSA Schedule which should be submitted along with their proposal. The Government reserves the right to seek further price reduction from the schedule prices. Price alone will not be the determining factor. Proposed prices will not be point-scored in the evaluation process.

15.0 ORAL PRESENTATIONS

a. The key focus of the Evaluation Team will be on the information provided during the oral presentations with respect to the information outlined in the evaluation factors listed above. The offeror will also be responsible for providing the Government with an oral presentation of their Management Approach, Experience of Proposed Key Personnel and Past Performance. The information provided from the contractor during the oral presentations will factor in when Management Approach, Experience of Proposed Key Personnel and Past Performance are rated.

b. Location of Oral Presentations: The oral presentations will be conducted at the Department of the Treasury in Washington, DC 20220. The contractors will be notified of the exact location at a later date. Costs (travel, time, etc.) for the oral presentations will be at the offeror's own expense and offerors shall not be entitled to reimbursement of any expenses associated with same.

c. Date of Oral Presentations: It is anticipated that oral presentations will take place on February 26, 2004. Offerors will be notified of the exact time of the oral presentations.

d. Media Requirements for Oral Presentations: The Government will provide an overhead projector and screen, if necessary. The offeror will provide other necessary equipment. Submissions of video tapes or other forms of media

DOX-04-0058

containing the presentation, in lieu of the actual in-person oral presentation itself, will not be authorized and proposals predicated upon same will be rejected. The Government reserves the right to videotape offeror's oral presentations. Copies of these video tapes will not be provided to the offerors.

e. **Documentation Limitations for Oral Presentations:** Offerors may use written materials to supplement the oral presentation. These materials shall be limited to copies of the offeror's briefing slides and/or presentation notes only, and are to be provided on the day of the scheduled oral presentation. The Government will not consider nor evaluate written materials that do not fall within these limitations. However, offerors may refer to written materials previously submitted as part of the offeror's proposal. A copy of these written materials shall be provided to the Government at the time of the offeror's oral presentation.

f. **Time Restriction for Oral Presentations:** Each offeror will have a maximum of ninety (90) minutes to make its oral presentation to the Government. An additional period of up to one (1) hour for Government questions and answers will then follow. The purpose of this question and answer session is to clarify the offeror's proposal to ensure complete understanding by the Government. These questions and answers shall not constitute discussions; and the offeror shall not be afforded an opportunity to revise/modify its proposal in any way as a consequence thereof.

g. **Content of Oral Presentations:** The oral presentation shall present the offeror's understanding of the Government's requirements. Additionally, the oral presentation shall address the offeror's Management Approach, Experience of Proposed Key Personnel and Past and Past Performance. The information presented during the oral presentation will be used by the Government in conjunction with the written proposal to evaluate the offeror's proposal. Offerors shall also discuss their proposed schedule of deliverables. Price shall not be a part of the oral proposals. Offerors shall determine the structure of their oral presentation, ensuring, however, that the requested information is fully and clearly addressed in the presentation.

h. Offeror's Oral Presentation Team

For the purpose of the oral presentation, the offeror shall utilize their proposed Project Manager and other individuals knowledgeable in the information to be presented during the oral presentation, including the projects referenced and included in the offeror's proposal. The number of the offeror's representatives shall be limited to no more than five (5). Individuals not directly involved in the oral presentation shall not attend.

16.0 BASIS OF AWARD

The Government will award a single order resulting from this Statement of Work to the responsible offeror whose offer, conforming to the Statement of Work will

DOX-04-0058

provide the best overall value/benefit to the Government based on a combination of management approach, experience of key personnel, past performance and price.

The Government will make paired comparisons among offerors who submit acceptable offers until the offeror who represents the best overall value has been determined. This methodology is consistent with the best value source selection tradeoff process recognized under FAR 15.101-1. This process permits the Government to consider award to other than the lowest priced offeror or to other than the highest non-price factors rated offeror.

17.0 AWARD WITHOUT DISCUSSION

Offerors are reminded that FAR 52.212-1(g) provides that the Government intends to evaluate proposals and award a contract without discussions with offerors (except clarifications as described in FAR 15.306(a)).

OMB CONTROL NO. 8 (155-008) & 155-001					
AMENDMENT OF SOLICITATION/MODIFICATION OF CONTRACT				1 CONTRACT ID CODE	PAGE OF PAGES
2 AMENDMENT/MODIFICATION NO. A001	3 EFFECTIVE DATE 02/13/2004	4 REQUEST/PURCHASE REQ. NO.	5 PROJECT NO. (if applicable) N/A		
6 ISSUED BY Department of the Treasury Procurement Services Division 1500 Pennsylvania Ave., NW 1425 New York Avenue, NW, 2 nd Floor, Suite 2100 Washington, DC 20220	CODE	7 ADMINISTERED BY (if other than Item 6)	CODE		
		SAME AS BLOCK #6			
8 NAME AND ADDRESS OF CONTRACTOR (No. Street, county, State and ZIP Code) LMI ATTN: Bill Moeller 2000 Corporate Ridge McLean, VA 22101-7805		(4) 9A AMENDMENT OF SOLICITATION NO. X A-04-0001 9B DATED (SEE ITEM 11) 2/11/2004 10A MODIFICATION OF CONTRACT/ORDER NO. 10B DATED (SEE ITEM 13)			
FACILITY CODE					
11. THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS					
<p>The above numbered solicitation is amended as set forth in Item 14. The hour and date specified for receipt of Offers is extended. <input checked="" type="checkbox"/> is not extended.</p> <p>Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended, by one of the following methods (a) By completing Items 8 and 15 and returning one (1) copy of the amendment. (b) By acknowledging receipt of this amendment on each copy of the offer submitted, or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS - PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment you desire to change an offer already submitted, such change may be made by telegram or letter, provided each telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified.</p>					
12 ACCOUNTING AND APPROPRIATION DATA (if required)					
13. THIS ITEM APPLIES ONLY TO MODIFICATIONS OF CONTRACTS/ORDERS, IT MODIFIES THE CONTRACT/ORDER NO. AS DESCRIBED IN ITEM 14.					
(4)	A. THIS CHANGE ORDER IS ISSUED PURSUANT TO: (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN ITEM 10A				
	B. THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, appropriation date, etc.) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43.103(b).				
	C. THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF:				
	D. OTHER Specify type of modification and authority:				
E. IMPORTANT: Contractor ____ is not ____ is required to sign this document and return ____ copies to the issuing office.					
14. DESCRIPTION OF AMENDMENT/MODIFICATION (Organized by UICF section headings, including solicitation/contract subject matter where feasible.)					
1. This is Amendment No. A001 to Solicitation No. A-04-0001 for the Mint/BEP efficiencies requirement.					
2. The deliverables under Section 4.1 of the Statement of Work are hereby revised to read as follows:					
Kick-Off Meeting NLT one week after award					
1 st Draft NLT one month after award					
Final Draft NLT two months after award					
Optional - Integrate all tasks					
Optional - Prepare OMB Recommendations					
15A. NAME AND TITLE OF SIGNER (Type or print)		Tammy M. McLeod, Contracting Officer			
15B. CONTRACTOR/OFFEROR	15C. DATE SIGNED	15D. UNITED STATES OF AMERICA	15E. DATE SIGNED		
(Signature of person authorized to sign)		BY <u> JL </u> (Signature of Contracting Officer)			
NSN 7540-01-152-8070 PREVIOUS EDITION UNUSABLE	30-105 Computer Generated	STANDARD FORM 30 (REV. 10-83) Prescribed by GSA FAR (48 CFR) 53.243			

AMENDMENT OF SOLICITATION/MODIFICATION OF CONTRACT				1	CONTRACT ID CODE	PAGE	OF	PAGES																																				
				1	2																																							
2. AMENDMENT/MODIFICATION NO. A002		3. EFFECTIVE DATE 02/18/2004		4. REQUEST/IMPURCHASE REQ. NO.		5. PROJECT NO. (if applicable)																																						
6. ISSUED BY Department of the Treasury Procurement Services Division 1500 Pennsylvania Ave., NW 1425 New York Avenue, NW, 2 nd Floor, Suite 2100 Washington, DC 20220		CODE		7. ADMINISTERED BY (if other than item 6)		CODE																																						
				SAME AS BLOCK #6																																								
8. NAME AND ADDRESS OF CONTRACTOR (No. Street, county, State and ZIP Code) LMI ATTN: Bill Moeller 2000 Corporate Ridge McLean, VA 22101-7805				<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2">(4)</td> <td colspan="2">9A. AMENDMENT OF SOLICITATION NO.</td> </tr> <tr> <td colspan="2" style="text-align: center;">X</td> <td colspan="2">A-04-0001</td> </tr> <tr> <td colspan="2"></td> <td colspan="2">9B. DATED (SEE ITEM 11)</td> </tr> <tr> <td colspan="2"></td> <td colspan="2">2/11/2004</td> </tr> <tr> <td colspan="2"></td> <td colspan="2">10A. MODIFICATION OF CONTRACT/ORDER NO.</td> </tr> <tr> <td colspan="2"></td> <td colspan="2">10B. DATED (SEE ITEM 13)</td> </tr> </table>					(4)		9A. AMENDMENT OF SOLICITATION NO.		X		A-04-0001				9B. DATED (SEE ITEM 11)				2/11/2004				10A. MODIFICATION OF CONTRACT/ORDER NO.				10B. DATED (SEE ITEM 13)													
(4)		9A. AMENDMENT OF SOLICITATION NO.																																										
X		A-04-0001																																										
		9B. DATED (SEE ITEM 11)																																										
		2/11/2004																																										
		10A. MODIFICATION OF CONTRACT/ORDER NO.																																										
		10B. DATED (SEE ITEM 13)																																										
FACILITY CODE																																												
<p style="text-align: center;">11. THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS</p> <p>The above numbered solicitation is amended as set forth in item 14. The hour and date specified for receipt of Offers is extended. X is not extended. Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended, by one of the following methods: (a) By completing items 8 and 15 and returning one (1) copy of the amendment; (b) By acknowledging receipt of this amendment on each copy of the offer submitted; or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS - PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment you desire to change an offer already submitted, such change may be made by telegram or letter, provided each telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified.</p>																																												
<p style="text-align: center;">12. ACCOUNTING AND APPROPRIATION DATA (if required)</p> <p style="text-align: center;">13. THIS ITEM APPLIES ONLY TO MODIFICATIONS OF CONTRACTS/ORDERS, IT MODIFIES THE CONTRACT/ORDER NO. AS DESCRIBED IN ITEM 14.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2">(4)</td> <td colspan="7">A. THIS CHANGE ORDER IS ISSUED PURSUANT TO: (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN ITEM 10A.</td> </tr> <tr> <td colspan="2"></td> <td colspan="7">B. THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, appropriation date, etc.) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43.103(b).</td> </tr> <tr> <td colspan="2"></td> <td colspan="7">C. THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF:</td> </tr> <tr> <td colspan="2"></td> <td colspan="7">D. OTHER Specify type of modification and authority:</td> </tr> </table> <p>E. IMPORTANT: Contractor ____ is not ____ is required to sign this document and return ____ copies to the issuing office.</p>									(4)		A. THIS CHANGE ORDER IS ISSUED PURSUANT TO: (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN ITEM 10A.									B. THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, appropriation date, etc.) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43.103(b).									C. THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF:									D. OTHER Specify type of modification and authority:						
(4)		A. THIS CHANGE ORDER IS ISSUED PURSUANT TO: (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN ITEM 10A.																																										
		B. THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, appropriation date, etc.) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43.103(b).																																										
		C. THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF:																																										
		D. OTHER Specify type of modification and authority:																																										
<p>14. DESCRIPTION OF AMENDMENT/MODIFICATION (Organized by UIC section headings, including solicitation/contract subject matter where feasible.)</p> <p style="text-align: center;">SEE ATTACHED</p>																																												
15A. NAME AND TITLE OF SIGNER (Type or print)				<p style="text-align: center;">Tammy M. McLeod, Contracting Officer</p>																																								
15B. CONTRACTOR/OFFEROR		15C. DATE SIGNED		15D. UNITED STATES OF AMERICA		15E. DATE SIGNED																																						
(Signature of person authorized to sign)				BY _____/s/		(Signature of Contracting Officer)																																						
NSN 7540-01-152-8070 PREVIOUS EDITION UNUSABLE		30-105 Computer Generated		STANDARD FORM 30 (REV. 10-83) Prescribed by GSA FAR (48 CFR) 53.243																																								

Mint/BEP Efficiencies
Solicitation No. A-04-0001
Amendment No. A002
Page 2 of 3

A. This is Amendment No. A002 to Solicitation No. A-04-0001 for Consulting Services for Mint/BEP Efficiencies.

B. The following questions and answers are provided in response to the Request for Proposal which was issued on February 11, 2004.

1. Q: Please confirm the period of performance is 2 months for CLIN 0001 and CLIN 0002.

A: The final draft is due two months after the date of contract award.

2. Q: What is the period of performance for CLIN 0003 and CLIN 0004?

A: Treasury must meet OMB expectations for Mint/BEP of a report to Congress by July 1, 2004. We do not anticipate any work after that report is submitted.

3. Q: May the contractor present an alternative timeline for the deliverables as a part of their technical approach, if the delivery of the Final Draft meets the Treasury timeline?

A: Treasury is open to alternative timelines provided the final report meets our timeline.

4. Q: What is the expected award date?

A: Treasury expects to award as quickly as possible after oral presentations. This is a top priority.

5. Q: Given the short period of performance, would the government consider eliminating the small business goal?

A: Treasury believes small business expertise offsets any coordination issues that may arise given the short periods of performance.

6. Q: What portions of the Mint/BEP portfolios will be included in this study? National Capitol Region only? National facilities portfolio?

A: All physical aspects in Washington and in the field are to be included.

Mint/BEP Efficiencies
Solicitation No. A-04-0001
Amendment No. A002
Page 3 of 3

7. Q: How many facility locations are involved? Where are they located?
What is the square footage associated with these facilities?

A: Mint has a DC headquarters and field facilities in Denver, San Francisco, West Point and Philadelphia. The Bureau's Western Currency facility is located in Fort Worth, TX. The Washington facility (Annex and Main Buildings) are located in Washington, DC. In addition, the Bureau leases a warehouse in Landover, MD for storage. The approximate square footage for each of these facilities is: Western Currency Facility - 690,000 sq.ft. ; Main Building - 890,000 sq.ft.; Annex Building - 510,000 sq.ft.; and Landover Warehouse - 265,000 sq.ft.

8. Q: Which functions are housed in these facilities (i.e. - office space, retail, storage/warehousing, production, etc.)?

A: Mint's field facilities are primarily stand alone production facilities with limited warehousing and storage capability. Mint's administrative, marketing and distribution functions are handled in Washington. Consumer (numismatic) fulfillment is handled by an outside vendor. The Bureau's Western Currency Facility is primarily a manufacturing plant dedicated to currency production. It does include administrative space, but administrative functions are centralized in Washington. The Washington buildings house both administrative and manufacturing functions. The Washington and Fort Worth facilities both include a public tour and small store selling Bureau-related items.

9. Q: Will information (i.e. - facility name, location data, square footage, number of occupants, ownership data, lease/occupancy agreement abstracts, cost data, building systems data, etc.) about the facilities portfolio be provided to the contractor in a database format? In another electronic format?

A: While Treasury is not sure what is meant by "database format", we have that information and it will be provided.

10. Q: Are building floor plans available in an electronic format?

A: Due to Security regulations, we cannot provide electronic copies of the building plans.

C. The attached information concerning the Mint and BEP Unions is hereby incorporated into the Statement of Work for subject solicitation.

D. The proposal due date remains Wednesday, February 25, 2004 by 12:00 p.m., EST.

Question. What underlying data was used in the study to determine whether a merger was cost effective?

Answer. Documents reviewed as part of the study included:

- The Treasury 5-year Strategic Plan
- Budget in Brief
- BEP and Mint 2005 Budget Documents and Annual Reports
- BEP Facilities Study—July 1998
- Coin and Currency (Security) GAO Study, July 2003
- 1987 Consolidation Study

These documents were supplemented with additional data such as BEP/Mint historical costs, industry standards, OMB Circular A-94, OPM guidelines and the DOD Cost Factor Handbook.

The study drew guidance from management theory, in both the public and private sectors, and from an empirical perspective using best practices in the manufacturing industry.

Question. Has OMB or Treasury sought comments from the potentially impacted agencies?

Answer. The BEP and the Mint have both been involved in the effort from the beginning. They helped draft the scope of work, select the winning contractor, assist in the data gathering, and commented freely on each report reiteration.

OMB has monitored progress on the effort, but will not seek comments until it receives the report on July 1, 2004.

Question. Has the Federal Reserve been asked to comment on the effects of a proposed merger? If not, should Treasury initiate a discussion?

Answer. Treasury views the Federal Reserve as a key stakeholder. Senior officials at the Federal Reserve have been interviewed and their suggestions have been incorporated into the process. The Federal Reserve is also being updated on progress.

Question. Prior to the merger of any systems or services, would the Department intend to seek Congressional approval? Does it require legislation?

Answer. We will not pursue any of those options without a full consultation with Congress and, in fact, Treasury will not call for any merger of any system or function prior to the end of the 108th Congress.

It is still too early in the process to predict if or when legislation might be necessary.

Question. When will the first phase of the study be completed?

Answer. The first phase concluded with LMI's May 2004 assessment of the financial implications of the options open to Treasury.

Question. Will there be any merger of any system or functions prior to the end of the year?

Answer. Treasury will not call for any merger of any system or function prior to the end of the 108th Congress.

Question. The purpose of most mergers is to create efficiencies and save taxpayer dollars. Previous studies conducted by the GAO and the Treasury IG found that only 4–5 percent of the workforces of the two agencies “overlapped”. Moreover, the study surmised that since the agencies’ production plants are located in 5 different locations, there was little likelihood that production lines could be streamlined. What has changed recently to nullify the findings of the GAO and the IG reports?

Answer. The Treasury Department continues to look for taxpayer savings and efficiencies in all its bureaus. Due to changing market conditions, a review of the Treasury Department’s structure is necessary to best serve the public. By studying the structure of the U.S. Mint and Bureau of Engraving and Printing, the Treasury Department ensures effective use of taxpayer resources.

Question. The committee understands that a rough draft of the merger report was supposed to be submitted on April 16 with the final report to be delivered on May 4. What is the status of this report? Will any actions be taken prior to Congress having adequate time to review the report and determine whether the correct measurements were used to justify any possible consolidation?

Answer. The document produced by LMI was designed to assess the potential for taxpayer savings and efficiencies. The April 16 and May 4 dates were the dates initially proposed by Treasury in the Request for Proposal (RFP). These dates were negotiable. LMI’s report was delivered on time and is currently being assessed. The initial schedule to deliver this report to OMB on July 1 is still on track. We will not pursue any plan without a full consultation with Congress and, in fact, Treasury will not call for any merger of any system or function during the 108th Congress.

Question. The cost of the initial stage of this study was estimated to exceed \$400,000. Under what authority was this money spent? Was Congress consulted prior to spending money on a study that has already undergone two extensive reviews?

Answer. The United States Mint Public Enterprise Fund (PEF) statute (31 U.S.C. § 5136) provides the authority to spend the Mint’s portion of the expenses.

Public Law 81–656, which created the Bureau of Engraving and Printing Fund, provides for funding without fiscal year limitation for all expenses of operating and maintaining the Bureau. This would include studies such as the Mint-BEP study, which is focused on ensuring cost effective and efficient operations.

The study was announced in the President’s Budget, which was sent to the Congress in early February. However, Congress was not specifically consulted prior to expending the funds for the study. This study is simply an effort to ensure the American people that Treasury is keeping up with changing technologies and market conditions. We will not pursue any of those options without a full consultation with Congress and, in fact, Treasury will not call for any merger of any system or function during the 108th Congress.

Question. Will the study consider putting the Mint and BEP under the Federal Reserve?

Answer. The study has assessed that option.

Question. What is the future of the penny? What will happen to the Mint's production once the cost of the penny is more than 1 cent to produce? With the decline in coin usage and the accelerating cost of the penny, what plans does the Mint have to cut its manufacturing costs?

Answer. 31 U.S.C. § 5112 requires the minting and issuance of a three-quarter-inch diameter 1 cent coin composed of copper and zinc. The United States Mint will continue to mint and issue 1 cent coins pursuant to this statutory mandate. The United States Mint is committed to keeping production costs as low as possible.

The United States Mint will produce pennies to fulfill all Federal Reserve Bank orders. Current forecasts suggest there will be demand of about 7.3 billion pennies in fiscal year 2004 from the Federal Reserve Banks.

The United States Mint has taken several cost reduction steps. First, the total number of employees at the United States Mint has fallen from approximately 2,900 in fiscal year 2000 to 2,132 today, saving significant personnel costs. The United States Mint currently has a rigorous review ongoing, consisting of more than 10 task forces that are examining opportunities to streamline and reduce costs in an effort to enhance overall taxpayer value. Also, the United States Mint is examining ways to lower its direct production cost by incorporating additional automation and lean manufacturing concepts on the production lines. Finally, the agency is engaged in ongoing research to determine the feasibility of less expensive materials that could be used for coins without having an effect on their quality and utility. Congressional action would be required before changes could be made to the composition of most denominations.

Question. How many dollar coins remain in the Mint's vaults? What is the estimated cost of this storage?

Answer. The United States Mint is currently storing 262.6 million Golden Dollars. The United States Mint's coin inventory is stored in United States Mint facilities in Denver and Philadelphia, as well as Federal Reserve Banks in Phoenix, AZ and Helena, MT. The Golden Dollar is stored as part of the overall coin inventory at these locations at no additional incremental cost to the government.

Question. How many sites does the Mint occupy in the Washington Metropolitan area? Please identify the use, location, amount of square footage, and cost for each of these locations.

Answer. The United States Mint currently occupies two buildings in Washington, DC, both of which are used for administrative purposes. The total United States Mint occupied square footage in the Washington Metropolitan area is 237,273 square feet at an annual net cost to the bureau of \$8,682,427.

The first building, 801 9th Street, has a total of 232,000 square feet, of which the United States Mint occupies 163,079 square feet and subleases the remaining 68,921 square feet to the Internal Revenue Service, the Treasury Executive Institute, and the United States Marshals Service. The total annual rent expense of this building is \$7,790,560. The United States Mint receives \$2,314,367 in rent payments from our sublet tenants, for a net total annual rent expense of \$5,476,193.

At the second building, 799 9th Street, the United States Mint rents a total of 149,647 square feet, occupies 74,194 square feet, and subleases the remaining 75,453 square feet to the Customs Service and the Bureau of Public Debt. The United States Mint does not lease the entire building; the General Services Administration, however, leases out other parts of this building to other Federal agencies. The United States Mint's total annual rent expense for its part of this building is \$6,486,176. The United States Mint receives \$3,279,942 in rent payments from our sublet tenants, for a net total annual rent expense of \$3,206,234.

Note.—The United States Mint also rents a small (about 100 square feet) sales kiosk within Washington DC's Union Station at an annual cost of \$78,000, operated by one or two sales clerks during business hours.

Question. In 1997, the GAO testified before the Congress on the issue of a BEP-Mint merger. At that time the GAO was unable to conclude that a merger would save as much money as the cost of consolidation. Does Treasury have any new information that would discredit or invalidate the GAO findings?

Answer. Treasury's study is still ongoing. The study will incorporate the 1997 GAO findings and account for changed market conditions.

Question. Prior estimates of implementation costs for merging the basic functions of the Mint-BEP were calculated to exceed \$50,000,000 and could plausibly reach \$100,000,000. When will the merger study be complete? Will it provide detailed cost estimates on a basic merger? Would it provide the costs of any proposed merger of production lines? Because of the concerns involved in the costs and the futures for these two organizations will the Treasury Department fully consult with the Congress prior to consolidation of any functions?

Answer. The study will provide detailed cost estimates of the options under consideration.

We will not pursue any of those options without a full consultation with Congress and, in fact, Treasury will not call for any merger of any system or function during the 108th Congress.

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU

Question. The Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF) was transferred to the Department of Justice, including IT services that support for the newly formed Alcohol and Tobacco Tax and Trade Bureau (TTB) at Treasury. Are the IT services for TTB provided by ATF? If so, why are these services still being provided by an agency of the Department of Justice?

Answer. When ATF was split, all IT infrastructures (servers, storage systems, desktop computers, laptop computers, network equipment, etc.) remained with ATF. It was intended that pending funding costs for moving TTB to Treasury hardware and support, ATF would continue to provide IT support. TTB has taken some steps toward transition off of ATF support. TTB is currently moving all accounting, procurement, travel, property, and personnel applications to the Treasury Bureau of Public Debt (BPD).

ATF currently provides the IT equipment and services for TTB that directly require an IT infrastructure. TTB has assumed the IT functions that can be performed without IT equipment (i.e. IT Security Policy, Capital Planning, and Enterprise Architecture). ATF provides all servers, network equipment and desktop/laptop equipment as well as all office productivity software. ATF provides services that include hosting and supporting all of TTB's custom business applications and office automation applications, TTB's computer security operations, TTB's network connectivity and client (desktop/laptop/peripheral) equipment support.

On April 29, 2004, ATF provided formal notification that they will no longer support TTB after fiscal year 2005.

Question. There is a Memorandum of Understanding (MOU) between TTB and ATF. Will the MOU between TTB and ATF be in effect for fiscal year 2005?

Answer. Yes, although not as many services will be included. For a number of non-IT areas, ATF has advised TTB that they intend to discontinue servicing TTB in fiscal year 2005 (see answer below). In the IT area, TTB has moved some services to BPD, as noted above.

Question. What are the services provided under the MOU and what is the cost attached to the MOU?

Answer. The current negotiated MOU with ATF for fiscal year 2004 is for \$13.7 million and is comprised of two principal components, the IT services at \$9.5 million and non-IT administrative support services at \$4.2 million.

The IT services covered under the MOU include the following:

- Custom Business Application and Office Application hosting and support
- Network and Phones equipment and support
- Customer Equipment and Support (desktops/laptops/peripherals)
- Software Maintenance of Custom Business Applications
- Configuration Management

The current non-IT administrative support services covered under the (MOU) are as follows:

- Legal services (assisting with one old EEO case and two Merit Systems Protection Board cases from fiscal year 2003)
- Peer support
- Emergency management services*
- Document services*
- Space management*
- Protective programs (finishing existing project)*
- Science and technology (This will continue for years because of shared laboratory facilities.)

ATF has informed us they will not provide IT services or within most of the non-IT areas noted above with an asterisk (*).

TTB has elected to move the following administrative support services to Bureau of Public Debt's Administrative Resource Center, a Treasury operation, to provide optimal efficiency and effectiveness in the delivery of those services to our program operations:

- Acquisition and material management (BPD for supplemental services)
- Financial management (BPD for 2005)
- Personnel services and personnel security (BPD beginning June 2004)
- Training and professional development (supplemented by BPD).

Question. How long do you anticipate ATF charging TTB for services rendered and is it necessary for TTB to rely on ATF for these services?

Answer. As indicated above, ATF will continue services in some areas as we continue to seek means to secure or provide these services independent of ATF; however, we organized our Bureau to provide services to our customers and as such the FTE distribution is very streamlined in the area of internal services. We will rely on the reimbursable agreement with BPD for several areas of service. In the meantime, we continue to research the most economical and efficient ways to secure these services. Our major issue at this time is the IT services that ATF currently provides; they have advised us in writing that they will no longer service us after fiscal year 2005 in that area.

It is necessary for these services to continue until TTB can transition the functions serviced at ATF to an alternate provider, including time to implement the transition after funding is provided.

Question. TTB has the Tax Audit Division that is responsible for auditing taxpayers for compliance with the Internal Revenue Code and other laws and regulations. What strides has TTB made with the Tax Audit Division?

Answer. TTB Tax Audit was first established in late fiscal year 2003 as part of TTB's strategic plan to collect the revenue that is rightfully due from the alcohol, tobacco, and firearms and ammunitions industries. The division was established to provide a systematic approach to safeguard over \$14 billion in annual revenue collected by TTB.

The mission of the Tax Audit Division (TAD) is to promote voluntary compliance in the payment of excise taxes that TTB administers and to verify that such payment was made. The TAD also ensures compliance with the laws and regulations relating to revenue collection. TTB Tax Audit uses a risk-based approach to target non-compliant industry members. TTB's goal in 2004 is to establish a baseline for measuring tax revenue audited in a 5 to 6 year period and the industry compliance rate (percentage of taxpayers audited with no material findings, thereby validating the amount of tax paid was accurate and rightfully due). Based upon these findings, TTB will determine its follow up audit strategy.

TTB's accomplishments in fiscal year 2004 as they relate to Tax Audit include:

- Established 10 field offices covering the U.S. territory.
- Recruited and hired 70 auditors. The average auditor has 10 years of previous audit experience and holds one audit certification such as CPA license.
- Established a formal industry-training program. Seventy-five percent of the workforce has been trained in three or more industries (tobacco, distilled spirits plants, beer, wine, manufacture of non-beverage products, and firearms).
- Implemented an automated audit documentation tool to facilitate a standard audit approach and create efficiencies.
- Developed an audit workplan scheduling 110 taxpayers for review in 2004.
- As of May 24, 10 audits have been completed and 55 are underway.

Initial audit findings have resulted in \$872,000 in additional revenue due to TTB.

Question. What is the status regarding flavored malt beverages and beers?

Answer. TTB has reviewed and analyzed the approximately 16,000 comments to Notice No. 4 concerning flavored malt beverages. At this time we are in the closing stages of evaluating the comments and we are discussing the comments with the Department of the Treasury.

Question. Has the hiring process been streamlined or improved in the past year?

Answer. Under the MOU, all human resource recruitment services were provided by ATF during fiscal year 2004; however, TTB just negotiated an agreement with the Bureau of Public Debt Administrative Resource Center (BPD ARC), to provide all TTB's human resource services for the bureau, including staff recruitment. This enhancement begins June 13, 2004. We believe this change in service provider will improve the recruitment process and streamline the paperwork, while allowing the bureau to attract highly skilled and qualified applicants for our vacancies.

Question. Will TTB reach its FTE ceiling of 559 this year?

Answer. TTB will not reach its FTE utilization ceiling of 559 this year. The bureau FTE ceiling of 559 includes 15 positions for Puerto Rico, which is a Reimbursable program, and 544 direct FTE funded positions. As of the most recent pay period, TTB has 509 staff on board, including 13 in Puerto Rico, and TTB will make every effort to reach the 559 targeted staffing levels by the end of this fiscal year. TTB's recruitment strategy as outlined with BPD ARC is very aggressive, and TTB is hopeful that the targeted staffing level can be reached. Their goal is to have a full staffing complement to begin the fiscal year 2005 fiscal year, but FTE utilization may only reach 504.

QUESTION SUBMITTED BY SENATOR ROBERT F. BENNETT

Question. In 2002 Treasury officials advised the Open World Leadership Center on the legislation needed to clarify and obtain authority to invest the Center's Trust Funds (and similarly the Stennis Center and Madison Fellowships) in special par value obligations. Such investment is a necessary and desirable protection of appropriated funds provided to OWLC by the Congress as "no year" funding in annual appropriations. The OWLC has requested that they be allowed to invest a portion of their trust in a special Treasury par value obligation. This request is being reviewed by the Office of the Asst General Counsel for Banking & Finance in Treasury Headquarters. I understand that Treasury is concerned whether, under the rules of statutory construction, the new conditions for issuing special obligations to the Stennis Center also apply to the OWLC. Please provide an update on the status of this request.

Answer. The Treasury Department has recently advised the Library of Congress (which manages the Open World trust fund) that amounts in the Open World trust fund may now be invested in par value Treasury specials.

QUESTIONS SUBMITTED BY SENATOR PATTY MURRAY

NEWLY-CREATED JOBS WILL NOT GO TO THOSE WHO ARE BEING LAID-OFF/JOB TRAINING

Question. As I mentioned in my opening statement, it is fine to point out that some of the same companies that are shipping American jobs overseas might also create jobs here in the United States in the future. But we also need to recognize that the people who are having their jobs sent overseas are not the ones that are likely to get the new jobs those companies are creating here at home.

For many Americans who are trained in one partfield and have supported their families on that same job for decades, the decision to move that job overseas represents the beginning of a long period of heartbreak and financial ruin.

Mr. Secretary, do you agree that the job descriptions and skill requirements of the new positions that are likely to be created in the United States in the future are not the same as those for the jobs that companies are currently shipping overseas?

Answer. It's true that many new jobs in our economy require new skills and education. Those new skills and education are one of the sources of our rising standard of living. That is why the President has made improving our Federal job training programs a priority. New jobs demanding new skills are always appearing. A quarter of all Americans are working in jobs that weren't even in the Census Bureau's occupation list in 1967.

The U.S. labor market is always changing, and is one of the most resilient and flexible labor markets in the world. One aspect of that flexibility is the high rate of job changes as employers and employees continually adjust to changing business needs and personnel requirements. Data from the Bureau of Labor Statistics (BLS) Job Opening and Labor Turnover Survey (JOLTS) suggests that there are more than 1 million new hires each week. In March 2004, there were 4.5 million new hires and about 4.1 million separations, and JOLTS reports that on the last day of March, there were about 3.1 million job openings available. The President is committed to ensuring workers have the skills necessary to obtain those jobs.

Question. I mentioned earlier that the President's new job training proposal does not add \$1 to his budget request for job training. In fact under his proposal, the amount of money going to community colleges for all job training purposes will actually decline. For the last 3 years, the Bush Administration has requested half a billion dollars in cuts in job training.

Mr. Secretary, what does the Bush Administration have to offer the manufacturing worker or the software engineer or the call center worker whose job is being sent overseas?

Answer. The President's goal is to increase job growth in this country while making sure workers have the skills necessary to access those jobs. Over the past 9 months, 1.4 million new jobs have been created. The tax cuts, which were proposed by the President and passed by the Congress in 2001 and 2003, played a vital role in creating a strong growth environment. During the last 3 years, the administration's tax reductions have been successful—first, in keeping the recent economic slowdown from worsening substantially in the face of terrorist attacks, corporate malfeasance, and wars in Afghanistan and Iraq, and secondly, in promoting a solid economic recovery and enhancing job prospects.

Our econometric work suggests that without the tax cuts, more than 2 million fewer Americans would have been working by the end of last year and the unemployment rate would have been more than 1 percentage point higher.

To ensure workers have the skills necessary to obtain these new jobs, the President's Fiscal Year 2005 Budget provides \$23 billion for job training and employment assistance, including Pell Grants used by students at technical and 2-year post-secondary schools. This funding level is \$500 million (2.3 percent) more than in 2004 and \$2.5 billion (12.5 percent more than in 2001).

Moreover, the President has proposed reforming the major Workforce Investment Act grant programs to double the number of workers who receive job training. These reforms will maximize the available Federal dollars going to train workers by eliminating unnecessary overhead costs, reducing expenditures on overhead by \$300 million. His Jobs for the 21st Century initiative includes a \$250 million proposal to help America's community colleges train 100,000 additional workers for industries that are creating the most new jobs.

Finally, the President has proposed a \$50 million Personal Reemployment Accounts pilot program to help unemployed workers who have the hardest time finding jobs get back to work. These flexible accounts, which would be in addition to unemployment compensation, would allow certain unemployed workers to purchase the training, child care, transportation, or other reemployment services they need to return to work. They would be allowed to keep unused amounts as a "reemployment bonus" if they become employed quickly. The administration is pleased that the House passed H.R. 444, the Worker Reemployment Accounts Act, on June 3 to authorize this pilot program under the Workforce Investment Act and urges the Senate to act on this important legislation for America's workers.

Question. What do you expect these people to do to try and maintain their level of income, their health insurance, and their ability to feed their families?

Answer. Whatever the cause, loss of jobs is taken very seriously by this administration. First and foremost, the administration believes that the best way to help workers who are competing in the global marketplace is to keep economic growth strong at home, to help make American companies more competitive, and to make America the best place in the world to do business. Recent employment gains show that our program is working. Employment has increased more than 1.4 million in the past 9 months and initial claims for State unemployment insurance benefits have fallen 20 percent from a year earlier.

As with any transition, an evolving economy can produce dislocations for individuals and communities in the short term. The administration is committed to helping these workers find good jobs at good wages as quickly as possible.

Our primary responsibility is to keep the economy growing. Maintaining and increasing economic growth is the key to increasing the number of good jobs in the economy, making it easier for people who have lost their jobs to find new and better ones.

The President has proposed several new measures to help prepare Americans for the rapidly changing and increasingly global workplace. His Jobs for the 21st Century initiative includes more than \$500 million to help prepare U.S. workers to take advantage of the better skilled, higher-paying jobs of the future, including \$250 million in proposed funding targeted to community colleges to train workers for industries that are creating the most new jobs.

COMPETITIVE SOURCING

Question. What is the status of all the competitive sourcing studies that have been undertaken at IRS? Please include year, area, and result.

Answer. The following list summarizes the status of IRS Competitive Sourcing studies:

Architects and Engineers (10 FTE)

Streamline competition resulted in in-house award. No savings were achieved. The in-house team was the most efficient.

Area Distribution Centers (500 FTE in Bloomington, IL; Rancho Cordova, CA; Richmond, VA)

The three Area Distribution Centers distribute tax forms, instructions and publications to taxpayers and internal use documents to IRS employees. A standard competition with award decision is scheduled for June 28, 2004.

Expected Saving and Benefits.—Consolidation of activities and geographic locations resulting in the release of commercial space, revised operational processes and procedures to gain efficiencies, new information system, reduced staff and increased managerial span of control.

Anticipated Return on Investment (fiscal year 2005–fiscal year 2009).—\$22 million.

Building Delegations or Operation and Maintenance (O&M) of Delegated Buildings (100 FTE in Covington, Fresno, Austin, Ogden, Philadelphia, and Headquarters)

O&M are those functions identified in the Building Delegation Agreements between the General Services Administration (GSA) and the IRS. These services include responsibilities to operate and maintain building systems (electrical, HVAC, control systems, etc).

A standard competition with solicitation release is scheduled for June 2004.

Expected Saving and Benefits.—Revised operational processes and procedures to gain efficiencies; reduced staff; and increased managerial span of control.

Anticipated Return on Investment (fiscal year 2006–fiscal year 2010).—\$3.9 million.

Mail Rooms (70 FTE)

Mailroom services functions include all aspects of the delivery of mail from full service delivery to mail stop or desktop to self-service mailrooms where customers pick up their own mail. The IRS made a decision to divide the study among headquarters, nationwide “stand alone sites” and campuses. The IRS plans to use public-private competition to improve operations.

A direct conversion is in progress.

Fully Implemented.—Denver, CO; Detroit, MI; Plantation, FL; Detroit Computing Center, MI; Houston (Leland), TX; Laguna Niguel, CA; Oklahoma City, OK; and San Francisco, CA.

Partially Implemented.—Washington, DC; New Carrollton, MD.

Scheduled for Implementation.—Cincinnati, OH; Jacksonville, FL (5/17); and Nashville, TN.

Implementation Not Scheduled.—Atlanta, GA; Baltimore, MD; Boston, MA; Buffalo, NY; Dallas, TX; Greensboro, NC; Hartford, CT; Houston (Alliance), TX; Indianapolis, IN; Los Angeles, CA; Milwaukee, WI; New Orleans, LA; Oakland, CA; Philadelphia, PA; Phoenix, AZ; Richmond, VA; Chicago, IL; Springfield, NJ; St. Louis, MO; St. Paul, MN.

Anticipated Return on Investment (fiscal year 2005–fiscal year 2009).—\$399,000.

Campus Operations (Information Technology) (350 FTE in Ogden, UT; Atlanta, GA; Brookhaven, NY; Andover, MA; Cincinnati, OH; Fresno, CA; Austin, TX; Memphis TN; Kansas City, MO; Philadelphia, PA)

This functional area provides the Information Systems (IS) computer operations at the ten IRS Campus facilities. The positions include computer operators, production controllers, tape librarians, computer specialists, and clerks. A standard competition with award decision is scheduled for July 2004.

Expected Saving and Benefits.—Revised operational processes and procedures to gain efficiencies; reduced staff; and increased managerial span of control.

Anticipated Return on Investment (fiscal year 2005–fiscal year 2009).—\$12.7 million.

Logistics Support (formerly Warehouse and Transportation) (160 FTE in Andover, MA; Philadelphia, PA; Brookhaven, NY; Atlanta, GA; Covington, KY; Austin, TX; Kansas City, MO; Ogden, UT; Fresno, CA; Memphis, TN)

This functional area provides warehousing and transportation, mainly at the 10 campus sites. This activity includes positions such as material handlers, warehouseman, motor vehicle operators, laborers, and clerks. A standard competition with Performance Work Statement development is underway.

Expected Saving and Benefits.—Revised operational processes and procedures to gain efficiencies, release of leased space, reduced staff and increase of managerial span of control.

Anticipated Return on Investment (fiscal year 2006–fiscal year 2010).—\$4.8 million.

Campus Files Activity (1,458 FTE in Austin, TX; Andover, MA; Philadelphia, PA; Brookhaven, NY; Cincinnati, OH; Memphis, TN; Atlanta, GA; Kansas City, MO; Ogden, UT; Fresno, CA)

This functional area receives, controls, shelves and maintains all returns/documents for retention and retirement. They retrieve documents as requested by customer organizations. Liaison work is critical with the Federal Records Centers for final retention of documents. The work is routine and does not involve making complex determinations or present unique fact patterns. A standard competition with solicitation release is scheduled for the fourth quarter of 2004.

Expected Saving and Benefits.—Revised operational processes and procedures to gain efficiencies; reduced staff; and increased managerial span of control.

Anticipated Return on Investment (fiscal year 2006–fiscal year 2010).—\$22 million.

Learning and Education (617 FTE Service-wide)

This functional area is responsible for determining service-wide and division-level professional training requirements, developing training plans and curriculum, evaluating the effectiveness of training, and performing a broad spectrum of program administration.

A standard competition with Performance Work Statement development is underway.

Expected Saving and Benefits.—Consolidation of activities, revision of operational processes and procedures to gain efficiencies, implementation of learning content management and learning management systems, reduction of staff and increased managerial span of control.

Anticipated Return on Investment (fiscal year 2006–fiscal year 2010).—\$25 million.

Note.—Return on investment includes cost of conducting competition and transition/separation costs. The IRS calculated savings through fiscal year 2009.

The following highlights IRS Business Case Analysis/Feasibility Studies:

Tax Law Telephone

This is a preliminary feasibility assessment of having a vendor provide tax law telephone assistance. After the completion of the preliminary feasibility assessment, the IRS will make a decision as to whether to go forward with the competition.

Fuel Compliance Activity (140 FTE Service-wide)

This function area monitors 1,400 terminals, all fuel wholesalers, thousands of retail motor fuel outlets, and U.S. border crossings. Additionally, these personnel are charged with conducting periodic inspections of on-road vehicles on highways throughout the country.

IT Support (Service-wide)

This is identification and development of sourcing strategy to identify candidate public-private competition activities.

Question. How much money has been spent on these competitions? Since the competitions are not budgeted for, where has the money come from?

Answer. Competitive Sourcing Competition Costs (Travel, training, staffing, expert contractor support (PWS, Most Efficient Organization, Independent Review)—does not reflect transition/separation costs):

—Fiscal year 2003—\$5.0 million;

—Fiscal year 2004—\$6.3 million.

It has been difficult to finance the Competitive Sourcing Program since the IRS does not know the outcomes in advance, the exact level of savings are yet to be determined, and it takes time to realize these savings. The IRS had to internally realign. However, the investments made today in public-private competitions show a return on investment usually within 2–3 years (includes payment of transition costs—voluntary early retirement, voluntary separation incentive, etc.). At that time, the IRS plans to reinvest the savings to fund future competitions and cover transition costs. The IRS proposes to fund \$9.1 million in the fiscal year 2005 budget for the Competitive Sourcing program by reinvesting resources freed up through productivity savings.

PROGRESS ON STEMMING THE USE OF CHARITIES TO FUNNEL CASH TO TERRORIST ORGANIZATIONS

Question. Our government has linked some 23 charitable organizations with the Al Qaeda network. It has been a longstanding practice for terrorist organizations around the globe to use charitable giving as an avenue for illicit resources. There appear to be some continuing disagreements between our government and the governments of the European Union as to which charities should be designated as being associated with terrorist organizations. A number of international charities that are listed by the United States have not been listed by European nations.

Why can't the United States and Europe agree over which charities are financing terrorism?

Answer. One of the primary differences between the United States and the European Union (E.U.) on the issue of terrorism and terrorist financing is the fact that the European Union has not traditionally treated non-al Qaeda terrorist groups, such as Hamas and Hizballah, in the same way that the United States treats them. The European Union has an efficient process for designating al Qaeda-related enti-

ties that have been designated by the U.N. 1267 Sanctions Committee. Under their system, action on an organization or individual by the U.N. 1267 Sanctions Committee is a sufficient legal basis for the European Union to designate that same organization or individual. The European Union's designation system for non-al Qaeda groups (i.e., for groups designated pursuant to U.N. Security Council Resolution (UNSCR) 1373), however, suffers from a lack of efficiency and effectiveness. This has resulted in delays and gaps in the European Union's designation on several non-al Qaeda-related entities.

One significant example of this problem is the European Union's failure to act swiftly and effectively with respect to Hamas. It is beyond question that funding to Hamas and other terrorist groups must be stopped, and the United States does not accept any artificial distinctions that some Europeans have in the past drawn between the so-called "military" and the so-called "socio-political" wings of Hamas or other terrorist groups. Hamas leaders themselves have publicly acknowledged this distinction is one without a difference. The conclusion is supported by the fungibility of funds. Money allocated to the humanitarian works of Hamas charities makes available for terrorist activity the Hamas funds that otherwise would have gone to those humanitarian purposes. Moreover, the United States believes that the funds raised by Hamas-related charities are used to finance the organization and ultimately fuel terrorist activities. For example, it is clear that Hamas uses its humanitarian operations to recruit militants and secure support for their activities among local communities and populace.

To that end, the United States has designated charities that have provided support to Hamas. We have made clear our position on Hamas, and other such terrorist groups, to our partners around the world. We are beginning to see a "sea change" of the European attitude on this matter, based in large part on the U.S. efforts to change attitudes and policies. The European Union's decision in September 2003 to designate Hamas in its entirety as a terrorist group represents an important first. Due to inefficiencies within the E.U. designation process, however, this overarching designation has not always resulted in the designation of individual European charities that are funding Hamas. We therefore must continue to encourage the European Union to implement their decision by designating Hamas charities operating in Europe. Recently there have been encouraging signs from certain E.U. members. Last year, the Dutch government froze the assets of the Al Aqsa Foundation, a European charity supporting Hamas. The German government shut down the offices of the Al Aqsa Foundation in their country, and the Danish government took actions against certain individuals operating Al Aqsa in Denmark.

The United States will continue to work with our E.U. counterparts, both by urging action and by keeping channels of communication open to share evidence supporting a complete designation of these terrorist groups.

Question. Have you seen a demonstrable increase in the level of the effort on the part of European nations in going after terrorist financing since the Madrid bombings?

Answer. Yes. The European Union's attention to the threat of terrorist financing has increased since the Madrid bombings. This renewed dedication is articulated in the European Union's Declaration on Combating Terrorism, which was issued on March 24, 2004, just 2 weeks after the Madrid bombings and by the accompanying appointment of Gijs de Vries to the newly created position of E.U. Counter-Terrorism Coordinator.

Question. What concrete changes have you seen since the Madrid bombings?

Answer. As noted above, immediately following the Madrid bombings, the European Union issued a Declaration on Combating Terrorism and appointed Mr. de Vries as the counter-terrorism coordinator. Mr. de Vries has articulated an aggressive agenda and has visited the United States to consult with key U.S. counter-terrorism officials. We are hopeful that the establishment of this position will enhance E.U. effectiveness in combating terrorist financing.

Question. In your view, which European nations have done the most in combating terrorist financing and which have the longest way to go?

Answer. The State Department's recently issued annual report on "Patterns of Global Terrorism 2003" includes a country-by-country discussion of actions by European countries in fighting terrorist financing. Treasury concurs with that assessment and refers the committee to that document for more information about country-specific activity.

Question. After some considerable pressure from Congress and the General Accounting Office, the IRS has finally published guidance to the States on how they can help regulate and monitor charitable organizations in this country that may be funneling money to terrorists.

Do you believe that the States have done all they can monitor charitable organizations that may be funneling money to terrorists?

Answer. States have an obligation to ensure the integrity of charities. They are the ground-level watchdog of charities and we rely on them to fulfill that function. They do not always, however, have the ability to effectively monitor global organizations. That is where the resources of not only the U.S. government, but the capabilities of umbrella organizations within the philanthropic community become critical.

Question. Do you believe States have the kind of resources that are necessary to do this job adequately?

Answer. I am not in a position to comment on the type or level of resources applied by each State to address the abuse of charities by terrorist financiers. I note, however, that we are engaged in a campaign to enhance their resources through cooperation. The first step was an outreach event recently held by the Treasury Department, with the focus being a discussion of the voluntary best practices against abuse of charities by terrorist financiers, previously published by Treasury. One of the significant results of this meeting was a decision to create an "advisory group" on charities. This group will serve as a resource and provide a forum that not only includes the States and the U.S. government, but also includes representatives from charities (large and small) and watchdog organizations.

HAS PROGRESS IN SAUDI ARABIA TRIGGERED PROGRESS IN OTHER ARAB NATIONS?

Question. Mr. Secretary, you traveled to Saudi Arabia back in September. Your agency has heaped praise on the Saudi government for enacting a significant number of new laws and regulations to prohibit the free flow of money to terrorist organizations in that country. But, as I noted in my opening statement, there is a difference between putting the laws on the books and actually enforcing them.

Do you believe the Saudis have actually cut off the flow of money in a significant way between their suspect charitable organizations and terrorist groups?

Answer. The Saudi Arabian government has taken decisive steps to curb the flow of terrorist money and we are hopeful that there will be further developments. Recognizing the significant role of charitable giving (zakat) in the Kingdom, this is a monumental task that not only requires legal and regulatory changes, but also a change in mindset among the population. The Saudis, who have now become victims of terrorism, appear to be committed to taking decisive action to address this problem. Even so, we continue to work with the Saudi government and other countries around the world to do more, faster and more aggressively.

The most fundamental challenge facing the Kingdom is defusing the radical extremism that facilitates support and recruitment for radical Islamist terrorist organizations like al Qaeda. The Saudi efforts to deal with this issue are important to ensure that militant religious extremism does not provide a platform for terrorists from which they can justify and launch their terrible actions.

The Saudi government must fully implement and enforce the comprehensive measures it has enacted to ensure charities, hawalas, and their formal financial systems are not abused for terrorist purposes. Recently, Saudi Arabia took concrete steps to do just that. On June 2, 2004, the United States and Saudi Arabia jointly designated five branches of the Saudi-based charity, the Al Haramain Foundation (AHF), and at the same time Saudi Arabia announced its intention to dissolve AHF in its entirety and merge its remaining operations and assets into the newly-established Saudi National Commission for Charitable Work Abroad. Saudi Arabia announced that this new entity will be subject to strict financial transparency, will be subject to legal oversight and will operate according to clear policies, so as to ensure that charitable funds intended to help the needy are not misused.

Question. Has the improved level of effort on the part of Saudi Arabia elicited similar responses by other Islamic nations?

Answer. We have been working closely with many Islamic nations since the events of September 11 and have seen continued progress in their anti-terrorist financing efforts. There has been ongoing work and cooperation on fighting terrorist financing since September 11, given the real threat that al Qaeda poses to many countries, particularly those in the Middle East. Gulf Countries such as Kuwait and the United Arab Emirates (UAE) have been cooperative in responding to decisions by the U.N. 1267 Sanctions Committee and have taken important steps to address issues like regulation of charities and hawalas. Other countries have been victims of terrorism and have taken important steps to address that issue. For example, we have worked closely with Algeria, which has a secular government, to support their anti-terrorist financing efforts.

Significant steps that are still needed include further action on cross-border currency transactions, wire transfers, and effective oversight of alternative payment

systems such as hawalas. We are encouraging regional discussions on these issues and continue to advance progress on these issues in the Middle East and around the world.

Question. What about the United Arab Emirates (UAE)?

Answer. The UAE Government has made many positive reforms to their anti-money laundering program. Further, it has cracked down on potential vulnerabilities in the financial markets and is cooperating in the international effort to prevent money laundering, particularly by terrorists and their supporters. In 2002, the UAE, in partnership with the United States, blocked the assets of more than 150 named terrorist entities, including significant assets in the UAE belonging to Al-Barakat. The Central Bank (CB) of the UAE has frozen a total of \$3.13 million in 18 bank accounts in the UAE between September 11, 2001 and March 2004.

Additionally, the UAE has recognized the importance and threat of hawala, and other alternative remittance systems, and they have made efforts to address the particular vulnerabilities from a lack of oversight and regulation of this sector. New regulations to improve oversight of the hawala system were implemented in 2002, and the CB now supervises 61 hawala brokers, which—like other financial institutions in the UAE—are now required to submit the names and addresses of transferors and beneficiaries involved in transfers to the CB and to complete suspicious transaction reports. The new attention on hawala is encouraging more people to use regulated exchange houses in the UAE. Traders in Dubai's Central Souk (Market) have stated that hawala exchange rates are now only 3 percent cheaper than formal exchange houses, persuading many to use the formal banking network. In May 2002, the UAE hosted an International Conference on Hawala attended by over 300 delegates from 58 countries. The conference concluded with the issuance of "The Abu Dhabi Declaration on Hawala," which calls for the establishment of a sound mechanism to regulate hawala, including, but not limited to the recommendation that countries adopt the 40 Recommendations on money laundering and 8 Special Recommendations on terrorist financing of the Financial Action Task Force (FATF). In April 2004, they held a second international conference on hawala reaffirming their commitment to the regulation of alternative remittance systems.

UAE has also just established the Anti-Money Laundering and Suspicious Case Unit (AMLSCU), located within the Central Bank, which functions as that nation's Financial Intelligence Unit (FIU). In June 2004, they co-hosted the South Asia Conference on Money Laundering with FinCEN, the U.S. FIU, further showing their commitment to combating money laundering and terrorist financing—especially on a regional basis.

Question. Have you seen any improved level of cooperation from the UAE?

Answer. Yes. The UAE Government has made many positive reforms to their anti-money laundering program. Further, it has cracked down on potential vulnerabilities in the financial markets and is cooperating in the international effort to prevent money laundering, particularly by terrorists and their supporters. In 2002, the UAE worked in partnership with the United States to block terrorist financing, and froze the assets of more than 150 named terrorist entities, including significant assets in the UAE belonging to Al-Barakat. The Central Bank (CB) of the UAE has frozen a total of \$3.13 million in 18 bank accounts in the UAE between September 11, 2001 and March 2004.

Additionally, the UAE has recognized the importance and threat of hawala, and other alternative remittance systems, and they have made efforts to address the particular vulnerabilities from a lack of oversight and regulation of this sector. New regulations to improve oversight of the hawala system were implemented in 2002, and the CB now supervises 61 hawala brokers, which—like other financial institutions in the UAE—are now required to submit the names and addresses of transferors and beneficiaries involved in transfers to the CB and to complete suspicious transaction reports. The new attention on hawala is encouraging more people to use regulated exchange houses in the UAE. Traders in Dubai's Central Souk (Market) have stated that hawala exchange rates are now only 3 percent cheaper than formal exchange houses, persuading many to use the formal banking network. In May 2002, the UAE hosted an International Conference on Hawala attended by over 300 delegates from 58 countries. The conference concluded with the issuance of "The Abu Dhabi Declaration on Hawala," which calls for the establishment of a sound mechanism to regulate hawala, including, but not limited to the recommendation that countries adopt the 40 Recommendations on money laundering and 8 Special Recommendations on terrorist financing of the Financial Action Task Force (FATF). In April 2004, they held a second international conference on hawala reaffirming their commitment to the regulation of alternative remittance systems.

UAE has also just established the Anti-Money Laundering and Suspicious Case Unit (AMLSCU), located within the Central Bank, which functions as that nation's

Financial Intelligence Unit (FIU). In June 2004, they co-hosted the South Asia Conference on Money Laundering with FinCEN, the U.S. FIU, further showing their commitment to combating money laundering and terrorist financing—especially on a regional basis.

WILL TREASURY BAN NON-COOPERATING NATIONS FROM THE BANKING SECTOR?

Question. Mr. Secretary, the Patriot Act gave you a new power to designate certain individual foreign jurisdictions or financial institutions as being “primary money laundering concerns” of the United States. To date, you have done this in the case of Burma, briefly in the case of the Ukraine, and in the case of the small country of Nauru. You can use this power under the Patriot Act to go so far as to cut those countries off from the U.S. financial sector.

Mr. Secretary are you considering expanding the use of this tool in terms of pushing foreign nations to improve their efforts in the area of combating terrorist financing?

Answer. The Treasury Department is committed to employing the tools given to us in Section 311 of the Patriot Act effectively and aggressively. As you note in your question, Treasury has already used this authority to designate the jurisdictions of Ukraine, Nauru and Burma, and two individual Burmese banks, all based on money laundering concerns. Additionally, the Treasury Department has designated the Commercial Bank of Syria and its Lebanese subsidiary under Section 311 based on a variety of issues, including terrorist financing concerns. In the cases of Ukraine, Nauru, and Burma, the designations have proved effect in pushing the foreign governments to improve their anti-money laundering efforts. It is our hope and expectation that the Syrian-related designation will prove effective as well.

Moving forward, Treasury will continue to safeguard the U.S. financial system by identifying and designating appropriate targets under Section 311, including those that pose risks related to terrorist financing.

Question. Which nations would you identify as having the most work to do to bring their level of effort up to a level that you would consider acceptable?

Answer. All countries should be constantly striving to improve their efforts in the fight against terrorist financing. Some countries have steps that they should take to improve the underlying structure of the counter-terrorist financing legal and regulatory systems. Others have these systems in place and need to focus on effective implementation. The State Department’s recently issued annual report on “Patterns of Global Terrorism 2003” includes a country-by-country discussion of actions in fighting terrorist financing. Treasury concurs with that assessment and refers the committee to that document for more information about country-specific activity.

IS TREASURY REQUESTING ENOUGH FOOT SOLDIERS IN THE WAR ON TERRORIST FINANCING?

Question. Many critics have observed that your agency’s efforts to combat terrorist financing are spread over too many offices with little or no coordination between the Office of Foreign Asset Control, the IRS, the Financial Crimes Enforcement Network and other parts of the Treasury Department. As such, I commend your decision to create the new Office of Terrorism and Financial Intelligence within the Department to coordinate all of these efforts. The leaders of the Senate Finance Committee—both Chairman Grassley and Senator Baucus—have commented in a letter to the President that your new initiative seems to be “heavy on generals and light on soldiers.” Also, it was recently revealed that, in developing President Bush’s budget request for 2005, a request by the IRS to increase the number of criminal financial investigators working on terrorist financing by 50 percent was rejected.

Are you sure that the amount of money that you have requested will supply enough resources to boost the number of foot soldiers that can follow up on leads and disseminate information to have the maximum impact in combating terrorism?

Answer. Over the last year, we have made substantial progress in coordinating the activities of the Office of Foreign Assets Control (OFAC), the IRS-Criminal Investigation Division (IRS-CI) and the Financial Crimes Enforcement Network (FinCEN) through the leadership of Deputy Assistant Secretary Juan Zarate and the Executive Office for Terrorist Financing and Financial Crimes (EOTF/FC). With the creation of the Office of Terrorism and Financial Intelligence (TFI), we are taking the final step of fully integrating the intelligence functions and resources of the Treasury Department into this effort. Initially, we are focusing on ensuring we are using what resources we have as effectively as possible. As part of this, we are exploring all options, e.g., exploiting the expertise and resources of existing Treasury bureaus and offices, not just for intelligence or law enforcement purposes, but also looking at regulatory actions. But before we turn to the solution of adding more peo-

ple, we are ensuring we clearly know what is necessary—whether expertise, personnel, technology, or legal authorities.

Question. How do you respond to the criticism that your new initiative is too top heavy and doesn't provide enough people to follow up on every potential lead?

Answer. The key to this new structure is the combination of our resources as well as the elevation of the status of these efforts within the Treasury Department and the U.S. Government. Both elements are essential to making the Office of Terrorism and Financial Intelligence (TFI) function well. Thus, we will be creating necessary efficiencies both within Treasury and in the U.S. Government to ensure we are maximizing our efforts. This is a team effort, not just within Treasury, but within the government. As we create this new office, we need expertise and leadership that will not only maximize the resources we have within Treasury, but also the resources within the government that contribute to this effort.

WILL THE BUDGET BOOST ACTUALLY IMPROVE FINANCIAL CRIMES NETWORK
ENFORCEMENT'S (FINCEN'S) PERFORMANCE?

Question. Your Financial Crimes Enforcement Network, or FinCEN, is charged with collecting and disseminating information on all questionable financial transactions that are reported by the banking sector. This agency has been subjected to a lot of criticism because of outdated technology and the long delays between the time questionable transactions are reported and the time they can be accessed by law enforcement agencies. Your budget seeks a 13 percent boost in funding for FinCEN this year.

If we approve this request, will we see demonstrable improvement in the amount of time it takes from when your agency takes receipt of this information to when it is available to the Federal and State agencies that are actually investigating and prosecuting these crimes?

Answer. Yes. Electronic filing from institutions is the best way to ensure faster provision of Bank Secrecy Act (BSA) information after it is received. An amount of \$3.238 million of this budget request is for program costs associated with the various mandates of the USA PATRIOT Act, and one of these mandates is to build a system that would permit the electronic filing of Bank Secrecy Act reports. The system built by FinCEN—the Patriot Act Communications System—has been operational since June 2002. Some of this request will be used to enhance this system's reliability and to develop tools that FinCEN believes will result in greater usage by industry.

FinCEN has also requested \$1.354 million and two FTEs for program increases to expand law enforcement's access to Bank Secrecy Act information through the online access system known as Gateway. This will broaden electronic access to this information among law enforcement.

Finally, FinCEN's BSA Direct initiative—a program critical to FinCEN's ability to provide law enforcement access to timely information—will improve law enforcement's access to the critical Bank Secrecy Act data by integrating the data into a consolidated, modern data warehouse. BSA Direct will include sophisticated query and reporting tools. Law enforcement and regulatory agencies will gain easier data access and enhanced ability to query and analyze the Bank Secrecy Act reports. These improvements are expected to lead to increased use of the Bank Secrecy Act data and will permit FinCEN to achieve its statutory obligations to control access and audit access to this sensitive information, provide FinCEN with the ability to network agencies with overlapping investigations, and will help FinCEN provide feedback and better communicate with the financial industry.

Question. The so-called "hawala" network is considered one of the prime ways in which terrorist organizations have been able to move money across borders without a paper trail. These networks are used for legitimate money transfers from immigrant families to their families back home. A blue ribbon task force on terrorist financing recommended that your Financial Crimes Enforcement Network register these operations in this country and require them, like banks, to report suspicious financial transactions.

Has any progress been made toward that goal by your Financial Crimes Enforcement Network?

Answer. To date, approximately 18,000 money service businesses have registered with FinCEN. It is unclear, however, how many of these entities are informal value transfer systems such as hawalas, hundi, fei ch'ien and others. Although there is a clear requirement for informal value transfer systems to register with FinCEN as a money services business, the registration does not distinguish these systems from other money service businesses. Failure to register can result in a Federal felony conviction.

FinCEN is working closely with the Internal Revenue Service (IRS), the agency with delegated responsibility to examine these businesses for Bank Secrecy Act compliance, to look for ways to identify these informal value transfer systems and bring them into compliance. FinCEN and the IRS are also focusing outreach and education efforts in communities where these informal systems are popular. Finally, FinCEN is working closely with law enforcement to identify those persons and entities that may be operating outside the bounds of the law.

Question. Should we expect any progress this year?

Answer. Yes. A central focus of FinCEN's new leadership is to improve registration and compliance by money service businesses. FinCEN is developing a comprehensive plan aimed at increasing registration and otherwise improving money service business compliance with Bank Secrecy Act regulations. Steps that FinCEN is already taking include:

- Obtaining better information on the size and nature of components of the money service business industry—including informal value transfer systems—to better ascertain the scope of education and outreach necessary and focus compliance resources on those sectors of the industry that critically need to be addressed;
- Coordinating with State regulators and Trade Associations to identify potential registrants and provide education and outreach;
- Conducting analysis of the Bank Secrecy Act reports for leads on locating money service business identified by other financial institutions as unregistered, non-compliant or engaged in suspicious activity. FinCEN will then point the IRS or law enforcement to those entities for action.
- Improving the registration form and regulatory requirements to simplify the registration and filing process, reduce filer error and improve quality of the data provided by filers.

TREASURY'S TERRORIST FINANCING INITIATIVE NEEDS DEADLINES AND MILESTONES

Question. Mr. Secretary, a variety of oversight agencies, including the GAO and others have criticized your national money laundering strategy and other elements of the war on terrorist financing because they tend to lack milestones and deadlines. You are now standing up a new office of Terrorism and Financial Intelligence within the Treasury Department to improve coordination between all of the agencies within your department that work on this important effort.

Do you think it is reasonable to have the new head of this office submit a comprehensive series of department-wide deadlines and milestones for each of the elements of your war on terrorist financing?

Answer. Treasury and the Executive Office for Terrorist Financing and Financial Crimes already use measures or milestones to help mark and guide our efforts in the areas of terrorist financing and financial crime. These have been incorporated into Treasury's comprehensive strategic plan, which is attached. Elements of this plan specifically focus on terrorist financing and financial crimes.

The ultimate goal of our efforts is to detect, deter and disrupt terrorist activity by cutting off access to sources of funds and systems. The most valuable way to measure our success in this effort is often intelligence information that suggests to us the impact we are having on the terrorist organization that we are targeting. This information is often anecdotal. Recognizing that we are dealing with a nefarious and clandestine network about which it is hard to obtain hard facts on cash flows, we have tried to identify other measures on how to evaluate success.

Question. How soon do you think you would be in a position to submit this to the committee?

Answer. A copy of Treasury's strategic plan is attached, and we will continue to develop adequate measures to help monitor our efforts.

[CLERK'S NOTE.—A copy of this document has been retained in Committee files.]

ARE THERE MORE RIGGS BANKS OUT THERE?

Question. Mr. Secretary, one of the last acts of the Clinton Administration was to issue a new money laundering guidance that specifically addressed requirements of financial institutions to monitor the financial transactions of senior foreign political figures. A lot of attention has been paid in the press to the possibility that Riggs Bank, here in the District of Columbia, knowingly violated those procedures since they do so much business with the Foreign Diplomatic Corps.

How widespread do you believe the problem is?

Answer. We have no reason to believe that the industry as a whole is not complying with the Bank Secrecy Act (BSA) requirements, although we recognize that we may need to improve coordination and enhance regulatory oversight.

Question. Are there other financial institutions besides Riggs Banks that are currently under investigation for failing to monitor the transactions of foreign government officials and foreign diplomats?

Answer. It would be inappropriate to comment on current investigations. However, at any given time, banks are examined by their functional Federal regulator for compliance with the Bank Secrecy Act (BSA). In fact, Federal bank regulators have explicit BSA examination cycles for institutions under their supervision. If an institution is found not to be in compliance with its requirements under the BSA, appropriate measures are taken to ensure full investigation and appropriate resolution of the matter.

Question. To what extent do you believe that the transactions that were not reported by Riggs Bank or others are in fact directly attributable to terrorist financing?

Answer. FinCEN is not in a position to confirm or deny the possibility that Riggs Bank facilitated terrorist financing. The transactions identified as suspicious were referred to law enforcement, as is our standard procedure for all such reporting for any financial institution.

Question. Have we established any direct links between actual terrorist groups and some of the transactions that have been discussed in the press?

Answer. FinCEN has no factual basis for concluding that the transactions not reported by Riggs Bank involved the financing of terrorism, and the transactions identified as suspicious were referred to law enforcement for possible investigation.

WHAT ACCOMPLISHMENTS ARE HOPED FOR IN NEXT G-8 SUMMIT?

Question. Mr. Secretary, exactly 7 weeks from today, President Bush will host the Sea Island G-8 Summit in Georgia. The theme of the summit is "Freedom, Prosperity and Security", and the efforts of the international community in fighting terrorism are on the agenda.

Can you specify for us what specific accomplishments in the area of combating terrorist financing are you hoping to bring about at the next G-8 summit?

Answer. The G-8 heads of state have provided crucial leadership to the international coalition against terrorist finance, which met in June 2004 at the Sea Island Summit. They have charged the G-7 Finance Ministers with the lead operational role in these efforts, and the Finance Ministers have reported to Heads at the end of last year about their accomplishments and their plans for this year, which included work on cash couriers, alternative remittance systems, and making asset freezing regimes more effective. They have also continued to implement the heads' charge to undertake outreach efforts to countries outside the G-7 by hosting meetings with key finance ministers and central bank governors in September 2003 (Dubai) and April 2004 (Washington, DC).

IRS STAFFING REDUCTIONS

Question. In January, IRS announced plans to reorganize.

What is the status of the reorganization? Please list current and proposed reductions by number of employees, type of work performed, center location including State, and date of reduction or proposed reduction.

Answer. In January, the Internal Revenue Service (IRS) announced changes designed to create operational efficiencies that will ultimately allow the IRS to re-direct the savings towards approximately 2,200 new enforcement positions. These changes include: Income Tax Returns Processing, Consolidation of Back Office Operations, and Reduction of Agency Overhead. Below are the specific details of each initiative, in turn.

Income Tax Returns Processing.—The IRS is gaining efficiency from the increase in e-filed returns and the drop in the more labor-intensive paper filings. Since 1990, the number of returns filed electronically has grown from 4 million to 60 million in 2004, reducing the need for employees to enter the data manually. It is expected that in 2005 over half of the returns received by IRS will be electronically filed. Some time ago, after realizing ten centers would not be needed to process tax returns, IRS developed a plan that would, over time, reduce the number of centers processing paper returns. The IRS Brookhaven center stopped processing paper returns in September 2003. In January, the IRS announced the second step in this process. The IRS Memphis center will stop processing paper returns in October 2005. At the Memphis location, about 2,200 employees currently process tax returns. Almost 2,000 of these employees are either seasonal employees or employees hired under a limited-term appointment. The IRS Philadelphia center is scheduled to stop processing paper returns in 2007, and the Andover center will be scheduled after

Philadelphia, depending on experiences with the other locations. IRS has taken steps in Philadelphia to limit the impact on career employees.

Consolidation of Back Office Operations.—For approximately 3 years, the IRS studied the reengineering of two administrative case management operations: case processing and insolvency operations. Case processing employees are responsible for a variety of back-office administrative tasks in support of examination and collection casework, such as processing cases, computer research and inventory controls. The insolvency organization protects the government's interests by ensuring that the government's claim in bankruptcy proceedings receives the highest possible priority relative to other creditors.

The case processing initiative involves more than 1,200 employees in over 80 locations. The insolvency initiative involves more than 300 employees in more than 50 locations. IRS is currently examining the impacts on each State, but will work to minimize the impact on employees by providing the maximum opportunities possible in affected areas.

The current structure of these two operations is a vestige of the old IRS structure prior to the reorganization mandated by the IRS Reform and Restructuring Act of 1998. Under this structure, many of the posts of duty have very few employees; indeed, some locations have only one employee performing case processing or insolvency work. As a result, we have minimal ability to respond to peak demand or manage workload; and employees have little opportunity to develop specialized skills or advance their careers. In addition, this widely dispersed geographic structure results in a variety of non-standard processes and makes quality review difficult.

The new operational structure builds on existing processes currently being performed at IRS campuses; provides economies of scale and standardization; allows the creation of a quality review unit; offers staffing flexibility; and creates space savings due to shift work. Specifically, Case Processing operations will be centralized at four campuses (Cincinnati, Memphis, Ogden, and Philadelphia), and a new function will be created to support the redesigned organization through help-desk support, technical assistance and quality review. Insolvency operations will be realigned across clerical, paraprofessional and professional staff. The clerical and paraprofessional staff will be consolidated in Philadelphia. (Approximately 900 Insolvency Specialists and Advisors will remain in field offices.)

Even after taking into account costs such as severance, hiring, training, salary cost differentials, and infrastructure, we expect these initiatives to yield savings in excess of \$300 million over the next 10 years. These savings will allow us to redirect the equivalent of 350 to 425 full-time employees to front line tax law enforcement over the next 3 to 5 years.

Reduction of Agency Overhead.—The IRS has studied human resources and other support functions to identify staff efficiencies and determine the proper size of these activities. Streamlining and centralization of these functions will generate annual savings of approximately 750 staff years, primarily two initiatives in the human resource area: Personnel Field Services and Transaction Processing Centers. The staff reductions are expected to occur in late 2005. IRS is in the process of finalizing these plans and will announce the details as they are able.

—*Personnel Field Services.*—The Personnel Field Services provides internal and external staffing support for the IRS business units, and administers over 30 benefit and work life programs. This initiative will take advantage of new technologies, such as a new automated Personnel system, HR Connect, mandated for use throughout Treasury and CareerConnector, as well as improved business processes and consolidation to create efficiency gains. Through this initiative, we will consolidate the Employment operations organizationally and geographically, producing economies of scale and improved operations, and yielding substantial support resource savings. Employment services will be consolidated in locations to support on-site campus operations.

—*Transactional Processing Centers.*—Transactional Processing Centers (TPCs) process payroll and timekeeping for the IRS. Currently, these operations are located at nine sites, each of which have a timekeeping, payroll, and employee inquiry function. As we implement HR Connect, we anticipate a 50 percent decrease in workload at the TPCs. The TPC consolidation is also part of a larger process of integrating the staff of the Employee Resource Center (which handles all administrative inquiries from Service employees) and the TPCs. Since about one-third of the administrative inquiries concern payroll, integration of these functions will permit us to answer more inquiries on first contact.

Question. What is the rationale for these reductions?

Answer. As noted above, in January, the Internal Revenue Service (IRS) announced changes designed to create operational efficiencies that will ultimately

allow the IRS to re-direct the savings towards approximately 2,200 new enforcement positions. These changes include: Income Tax Returns Processing, Consolidation of Back Office Operations, and Reduction of Agency Overhead. Below are the specific details of each initiative, in turn.

Income Tax Returns Processing.—The IRS is gaining efficiency from the increase in e-filed returns and the drop in the more labor-intensive paper filings. Since 1990, the number of returns filed electronically has grown from 4 million to 60 million in 2004, reducing the need for employees to enter the data manually. It is expected that in 2005 over half of the returns received by IRS will be electronically filed. Some time ago, after realizing ten centers would not be needed to process tax returns, IRS developed a plan that would, over time, reduce the number of centers processing paper returns. The IRS Brookhaven center stopped processing paper returns in September 2003. In January, the IRS announced the second step in this process. The IRS Memphis center will stop processing paper returns in October 2005. At the Memphis location, about 2,200 employees currently process tax returns. Almost 2,000 of these employees are either seasonal employees or employees hired under a limited-term appointment. The IRS Philadelphia center is scheduled to stop processing paper returns in 2007, and the Andover center will be scheduled after Philadelphia, depending on experiences with the other locations. IRS has taken steps in Philadelphia to limit the impact on career employees.

Consolidation of Back Office Operations.—For approximately 3 years, the IRS studied the reengineering of two administrative case management operations: case processing and insolvency operations. Case processing employees are responsible for a variety of back-office administrative tasks in support of examination and collection casework, such as processing cases, computer research and inventory controls. The insolvency organization protects the government's interests by ensuring that the government's claim in bankruptcy proceedings receives the highest possible priority relative to other creditors.

The case processing initiative involves more than 1,200 employees in over 80 locations. The insolvency initiative involves more than 300 employees in more than 50 locations. IRS is currently examining the impacts on each State, but will work to minimize the impact on employees by providing the maximum opportunities possible in affected areas.

The current structure of these two operations is a vestige of the old IRS structure prior to the reorganization mandated by the IRS Reform and Restructuring Act of 1998. Under this structure, many of the posts of duty have very few employees; indeed, some locations have only one employee performing case processing or insolvency work. As a result, we have minimal ability to respond to peak demand or manage workload; and employees have little opportunity to develop specialized skills or advance their careers. In addition, this widely dispersed geographic structure results in a variety of non-standard processes and makes quality review difficult.

The new operational structure builds on existing processes currently being performed at IRS campuses; provides economies of scale and standardization; allows the creation of a quality review unit; offers staffing flexibility; and creates space savings due to shift work. Specifically, Case Processing operations will be centralized at four campuses (Cincinnati, Memphis, Ogden, and Philadelphia), and a new function will be created to support the redesigned organization through help-desk support, technical assistance and quality review. Insolvency operations will be realigned across clerical, paraprofessional and professional staff. The clerical and paraprofessional staff will be consolidated in Philadelphia. (Approximately, 900 Insolvency Specialists and Advisors will remain in field offices.)

Even after taking into account costs such as severance, hiring, training, salary cost differentials, and infrastructure, we expect these initiatives to yield savings in excess of \$300 million over the next 10 years. These savings will allow us to redirect the equivalent of 350 to 425 full-time employees to front line tax law enforcement over the next 3 to 5 years.

Reduction of Agency Overhead.—The IRS has studied human resources and other support functions to identify staff efficiencies and determine the proper size of these activities. Streamlining and centralization of these functions will generate annual savings of approximately 750 staff years, primarily two initiatives in the human resource area: Personnel Field Services and Transaction Processing Centers. The staff reductions are expected to occur in late 2005. IRS is in the process of finalizing these plans and will announce the details as they are able.

—*Personnel Field Services.*—The Personnel Field Services provides internal and external staffing support for the IRS business units, and administers over 30 benefit and work life programs. This initiative will take advantage of new technologies, such as a new automated Personnel system, HR Connect, mandated

for use throughout Treasury and CareerConnector, as well as improved business processes and consolidation to create efficiency gains. Through this initiative, we will consolidate the Employment operations organizationally and geographically, producing economies of scale and improved operations, and yielding substantial support resource savings. Employment services will be consolidated in locations to support on-site campus operations.

—*Transactional Processing Centers.*—Transactional Processing Centers (TPCs) process payroll and timekeeping for the IRS. Currently, these operations are located at nine sites, each of which have a timekeeping, payroll, and employee inquiry function. As we implement HR Connect, we anticipate a 50 percent decrease in workload at the TPCs. The TPC consolidation is also part of a larger process of integrating the staff of the Employee Resource Center (which handles all administrative inquiries from Service employees) and the TPCs. Since about one-third of the administrative inquiries concern payroll, integration of these functions will permit us to answer more inquiries on first contact.

Question. What kind of hires will occur as a result of the reorganization?

Answer. The savings from the reorganization initiatives will ultimately be re-directed towards approximately 2,200 new enforcement positions. The case processing and insolvency initiative will result in the creation of positions in Cincinnati, Memphis, Ogden and Philadelphia. Case processing operations will be centralized at four campuses and a new function will be created to support the redesigned organization through help-desk support, technical assistance and quality review. Insolvency operations will be realigned across clerical, paraprofessional and professional staff. The clerical and paraprofessional staff will be consolidated in Philadelphia. (Approximately 900 Insolvency Specialists and Advisors will remain in field offices.)

The reduction in agency overhead will fund expected efficiencies of \$18 million directed by the administration in the IRS's fiscal year 2005 budget.

IRS returns processing savings anticipated in fiscal year 2005 are approximately \$6 million and 147 FTE. These savings, along with \$105 million additional savings will be reapplied as follows:

Reinvestment	Millions of Dollars	FTE
Curb Egregious Noncompliance	31.4	293
Select High Risk Cases for Examination	6.0	.....
Embedded Quality	1.6	26
Consolidation—Case Processing	13.7	80
Consolidation—Insolvency	2.1	15
Combat Corporate Abusive Tax Schemes	5.0	34
Leverage/Enhance Special Agent Productivity	2.5	28
Standardize CLMC Training Rooms	0.5	.....
IRS Reorganization Transition	5.0	.....
Service-wide Competitive Sourcing	9.1	.....
MITS Reorganization Transition	34.0	236
Total	110.9	712

Downstream rent savings will be used to reduce rent deficits, allowing IRS to protect enforcement initiatives.

IRS ENFORCEMENT INCREASE

Question. Mr. Snow, at our recent hearing with IRS Commissioner Everson, we heard about the unbudgeted-for costs at IRS and how funding that was to be used for enforcement, instead went to help pay for these unbudgeted costs such as pay, postage and rent.

Can you give us the same commitment that Commissioner Everson did, that every dollar that this subcommittee provides for enforcement for this year and next year actually be spent on enforcement activities?

Answer. Yes, if the Congress provides the requested enforcement funds, the committee can count on those funds going toward enforcement.

The only caveat is, as noted by Commissioner Everson when he testified before the committee, is a government-wide rescission or similar device is enacted, we will take them across the board and that may affect the total enforcement resource level as it will affect all of the other IRS accounts.

Question. Also, Mr. Secretary, we have been told by IRS that for the past 3 years, enforcement has been declining at IRS. Now, IRS is changing its focus and making enforcement a top priority.

Why has it taken 3 years for the IRS to stem the reduction in enforcement activities?

Answer. The decline in enforcement activities was driven by concurrent declines in frontline enforcement personnel and implementation of significant process changes required to respond to the mandates of the Restructuring and Reform Act of 1998. From fiscal year 1996 to fiscal year 2003, the combined FTE for revenue agents, revenue officers and criminal investigators declined by 27 percent. During this period, IRS placed an increased emphasis on improving taxpayer service, often to the detriment of enforcement. Despite this, enforcement outputs increased in 2003 across all major programs. IRS expects these increases to continue in 2004 with additional hires and continued roll-out of reengineered processes. The fiscal year 2005 budget seeks to further restore IRS to a balanced program emphasizing both service and enforcement.

OFFICE OF FOREIGN ASSETS CONTROL (OFAC)

Question. Recently, OFAC provided supplemental budgetary information to the Appropriations Committee outlining six areas of focus relating to Executive Orders, followed by two significant efforts on joint task force actions.

Please provide for the record how many FTEs or employee hours—whichever is more applicable—are allocated for the above-mentioned areas.

Answer.

Executive Order ¹	FTE
President's Financial War on Terrorism (E.O. 13224)	30.443
Charities and Regulatory Strategy/Financial War on Terrorism (E.O. 13224)	2.930
Blocking Saddam's Misappropriated Assets (E.O. 13315)	5.820
Western Balkans Executive Order (E.O. 13219)	1.070
Kingpin Act Program	9.095
SDNT—Colombian Cartels Program	² 7.045
Total	56.403

¹ These numbers are estimates based on current workload and allocation of resources to meet these needs. As workload demands change, the numbers will fluctuate as well. Numbers in these tables include allocation of resources for program implementation and support.

² Includes Operation Dynasty and Operation Panama Express.

Question. What are the remaining FTEs or employee hours allocated to?

Answer.

Programs ¹	FTE
Afghanistan/Taliban	0.69
Cuba	21.43
Iran	13.62
Iraq	5.43
Libya	5.06
North Korea	0.34
Sudan	4.1
Syria	0.75
Burma	0.021
Liberia	2.06
Zimbabwe	0.58
Haiti	0.045
Other Programs	6.971
Program Support	9.61
Total	70.707

¹ These numbers are estimates based on current workload and allocation of resources to meet these needs. As workload demands change, the numbers will fluctuate as well. Numbers in these tables include allocation of resources for program implementation and support.

Question. Please list for the record, how many FTEs and employee hours are dedicated to administering and enforcing the restrictions on travel to Cuba.

Answer. Cuba, because of its proximity and distinctive relationship with the United States, has a unique and critical sanction program which receives strict attention. OFAC has the equivalent of 21.43 FTEs who administer, oversee and enforce the Cuba program, including the travel embargo and remittance restrictions. These FTEs focus on a full range of OFAC services required for the administration of the program, including licensing, enforcement, supervision and other important aspects of the embargo. Of the 21.43 FTEs, approximately half are devoted to proc-

essing travel-related license requests, which include family, educational, humanitarian, religious, professional, journalistic, governmental, and other types of travel.

Question. How has this differed from FTEs and hours spent during each of the past 5 years?

Answer. Departmental Offices' financial management reporting system does not have the capability of allocating the number of employees dedicated to administering and enforcing the restrictions on travel to Cuba over the past 5 years. The financial reporting system reflects the total number of employees, authorized, on-board, and project FTE usage.

Question. How does the fiscal year 2005 budget request allocate resources for this purpose?

Answer. The fiscal year 2005 budget request allocates resources for this purpose based on the current FTE level (21.43 FTEs). It is anticipated that this FTE level will remain approximately the same.

PROPOSED MERGER OF THE U.S. MINT AND THE BUREAU OF ENGRAVING AND PRINTING

Question. Mr. Secretary, in March, the Treasury Department hired a consulting company to study ways to merge the U.S. Mint and the Bureau of Engraving and Printing (BEP). This is not a new idea and is one that has been studied by GAO in 1997, by the National Performance Review in 1995, and by the Treasury Inspector General in 1987. In all cases, the idea of a merger was rejected as impractical and potentially costly. Despite these facts, the decision was made to pay for a new study at a cost that will exceed \$400,000. I have been told that this study will not make a recommendation, that it is only a 60-day study that will simply provide options.

Is this a wise use of taxpayer dollars when the idea has already been rejected on three separate occasions?

Answer. The Treasury Department continues to look for taxpayer savings and efficiencies in all its bureaus. Due to changing market conditions, review of the Treasury Department's structure is necessary to best serve the public. By studying the structure of the U.S. Mint and Bureau of Engraving and Printing, the Treasury Department ensures effective use of taxpayer resources.

Question. Is this expenditure reflected as a line-item in the Fiscal Year 2005 President's Budget? If not, why not?

Answer. The expenditure is not a line item in the President's Fiscal Year 2005 Budget. The U.S. Mint and the Bureau of Engraving and Printing allocate resources for efficiency assessments they believe necessary. The specifics of these studies are not always known when the budget is formulated.

Question. Who at the Treasury Department made the decision to hire the consultant?

Answer. The Secretary directed senior officials at the Bureau of Engraving and Printing and the U.S. Mint to work with his staff. These efforts at the Department are run out of the Office of the Assistant Secretary for Management.

Question. Why wasn't this an open competition? Only three firms were considered off the GSA schedule. Who were they and what factors led to the winner's selection over the other two?

Answer. This was an open competition. The Department complied with the requirements for full and open competition by obtaining three experienced companies from the GSA Schedule. IBM, Logistic Management Institute (LMI), and Booz Allen Hamilton are prominent and respected firms in this field.

LMI was selected because the contracting officer determined the firm submitted the best proposal based on their:

- 1. *Management Approach.*—This includes "Understanding of the Requirement" and "Demonstrated Ability to Meet Timeframes with Quality Products"
- 2. *Experience of Proposed Personnel in Cost Modeling, Government Management Improvement Efforts, Redevelopment of Excess Plant Capacity/Office Space, and OMB/Congressional Budget Issues*
- 3. *Past Performance.*—Includes the proposed individuals and the firm.

Question. Why is this study being rushed in 60 days in order to provide information for the fiscal year 2006 budget cycle? This is not a new issue. Why is it imperative to cut corners and go to unnecessary expense for this proposal?

Answer. The study was designed to be completed in approximately 60 days in order for Treasury to consider an inclusive approach that assesses the possible impact of changing market conditions. This inclusive approach calls for augmenting the business case for BEP/Mint efficiencies within the context of current "good government" initiatives.

While the issue is not new, the environment (impact of E-Commerce on demand and 9/11 impact on security) has changed since the prior studies.

We believe this timeframe was reasonable for the assessment and is a necessary expense and integral to implementing our approach for the study.

Question. Will you provide your assurance, Mr. Secretary, that from this point further, the Treasury Department will not expend any additional funding to implement a Mint-BEP merger until such a time that this committee and the Congress provide its approval?

Answer. We will not pursue any of these options without a full consultation with Congress and, in fact, Treasury will not call for any merger of any system or function during the 108th Congress.

QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

Question. Congress included in the Fiscal Year 2004 Consolidated Appropriations bill, enacted as Public Law 108–199, on January 23, 2004, language that directs the administration to negotiate a solution to the World Trade Organization's (WTO) ruling against the Continued Dumping and Subsidy Offset Act. When will the United States present its negotiating position on this matter to the WTO?

Answer. In accordance with the Appropriations bill language, the United States filed and presented a formal paper in the World Trade Organization (WTO) Negotiating Group on Rules for its meeting the week of April 26, 2004, raising the issue of the right of WTO Members to distribute monies collected from antidumping and countervailing duties. That paper is publicly available on the WTO website (www.wto.org), under the document designation TN/RL/W/153.

It should be noted that the November 2001 Doha Ministerial Declaration mandate for the WTO Rules Group calls for an initial phase of issue identification before any negotiations over specific changes. Given this Doha mandate, it has been U.S. practice with respect to all the issues we have raised thus far in the Rules negotiations to begin with a submission identifying the issue generally, and we followed this practice in our paper with respect to this issue as well.

Question. In report language accompanying the Fiscal Year 2004 Consolidated Appropriations bill, enacted as Public Law 108–199, Congress directed the administration to report to the Senate Appropriations Committee every 60 days on the progress of these negotiations.

Can you explain why the first report was not provided to the Appropriations Committee 60 days from enactment of the Consolidated Appropriations bill, meaning on or about March 23, 2004? Can you confirm that the next report will be provided 60 days from March 23, 2004?

Answer. The United States Trade Representative (USTR) is working to schedule a briefing with Senate Appropriations Committee staff to report on this issue as soon as it can be arranged.

Question. The Bush Administration currently does not pursue trade remedies under the U.S. countervailing duty law against non-market economies like China, even though: (1) the United States negotiated subsidy disciplines with China as part of its accession to the WTO; (2) the United States has worked to see that China participates in the ongoing OECD steel subsidy negotiations; and (3) USTR reports that various agricultural industries are experiencing ongoing export subsidies by China. Can you tell me whether the administration is reexamining this issue? If not, why not?

Answer. The Department of Commerce has informed us that it does not currently apply the countervailing duty (CVD) law to non-market economies (NMEs), a practice upheld in 1984 by the Court of Appeals for the Federal Circuit in *Georgetown Steel Corp. v. United States*. In that case, the Court affirmed Commerce's view of NMEs as devoid of the kinds of market benchmarks necessary to identify a subsidy. The Court also relied on Congress's 1974 effort to address unfairly traded NME exports through the AD law by enacting the factors-of-production methodology. Commerce has re-affirmed Georgetown many times, most recently in the 1997 preamble to the post-URAA CVD regulations. Congress enacted substantial amendments to the CVD law in 1988 and 1994 without disturbing Commerce's practice in this area.

The Commerce Department recognizes that the reasoning underlying the Georgetown decision may not apply to China today to the extent that it did 20 years ago. However, applying the CVD law to NMEs would raise complex issues of policy and methodology, including implications for antidumping policy and practice. Any such shift away from 20 years of trade practice should therefore only be implemented after careful consideration and review.

Question. The U.S. Bureau of Customs and Border Protection (CBP) issued a report in March, which revealed that at least \$130 million in import duties were uncollected in fiscal year 2004, primarily in cases involving imports from the People's Republic of China. Several weeks ago CBP Commissioner Bonner suggested that an interagency task force had been launched specifically to ensure that antidumping duties, including those imposed on Chinese imports, are properly assessed and collected by the U.S. government.

Please advise as to whether U.S. Treasury Department officials are involved in this task force and, if they are, provide specific information regarding what they plan to do to solve this problem.

Answer. Assessment and collection of duties, including antidumping duties, have been delegated to the Department of Homeland Security pursuant to the Homeland Security Act. Treasury Department and CBP officials have, nevertheless, discussed the issue of how to ensure that antidumping duties are properly assessed and collected. Treasury officials, however, are not involved in the particular work group to which you are referring, which involves CBP and Department of Commerce staff. CBP has informed us that it currently has in place trade strategies that focus specifically on antidumping/countervailing duty and revenue. Each of these plans has a multi-office working group responsible for the development, oversight and evaluation of the plans. These plans have already developed and implemented a number of actions that address dumping as a whole and by inclusion, China. These actions include identification and clean up of outstanding dumping entries, increased operational oversight of the dumping process, development of improved mechanisms to ensure and monitor adequate bonding of dumping entries, and improved communication with the Department of Commerce.

QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

Question. I'm very concerned about the finding in a recently-released U.S. General Accounting Office (GAO) report. The GAO report found that a majority of foreign-based and U.S.-based companies pay absolutely no Federal income taxes each year despite doing trillions of dollars of business here. There is compelling evidence that many multinational companies are using transfer pricing to shift their U.S.-earned profits abroad to tax-haven countries. And the "arm's length" pricing enforcement methodology that has been advocated by the Treasury Department—and applied by the IRS—is simply not putting a stop to this blatant tax gimmickry. Repeated attempts by the United States to make the current "arm's length" system work over the past decade have failed.

At what point will this administration decide that it's time to finally abandon its "arm's length" pricing approach and develop a more effective way to administer and enforce our tax laws with respect to firms that operate across national borders?

Answer. The arm's length standard provides a clear, consistent principle for dividing the income of a multinational enterprise among the countries where it operates. The policy is neutral in its treatment of companies within a multinational group versus independent companies and thus does not favor one form of business organization over the other. These positive features have contributed to the broad acceptance of the arm's length standard as the international standard for determining the income of multinational enterprises.

Another compelling reason to continue with the arm's length standard is because it represents the best way to deal with related party transactions under today's economic circumstances. The conditions that make formulary apportionment possible at the State level do not exist at the international level. Internationally there are neither common accounting standards nor common approaches for measuring income. Moreover, there is no umbrella framework or organization comparable to the Federal income tax or the Internal Revenue Service. Unless countries were to adopt a common accounting system and some sort of international body were to be established with authority to examine the worldwide financial statements of all multinational companies, it would not be feasible to abandon the internationally-accepted arm's length approach in favor of global formulary apportionment.

The Treasury Department continues working to improve the administration of the arm's length standard and to build upon the advances made in the last 15 years. The Treasury Department is devoting significant resources to ensuring that the transfer pricing regulations are up-to-date and reach appropriate results consistent with the arm's length standard. This effort includes appropriate revisions of the applicable regulations as well as an administrative compliance initiative that is being directed by the Internal Revenue Service.

Question. The administrative problems associated with the current “arm’s length” pricing methodology are well-documented. A number of prominent tax experts share my view that U.S. tax avoidance by sophisticated multinational firms has been perpetuated, in large part, by the Treasury Department’s blind allegiance to this antiquated tax enforcement method.

I think we should replace the “arm’s length” pricing method with an objective, formula-based approach for apportioning the world-wide income of related companies. This approach would be similar to the system that States have used successfully for decades to allocate the overall income of corporations among the States in which they operate. A formulary method avoids many of the problems caused by the overly subjective and factually-sensitive nature of intercompany sale pricing under the “arm’s length” standard.

What do you believe are the major impediments, if any, to the United States moving to a formula method for apportioning the world-wide income of related companies? If there are impediments, what steps do you think would be needed to overcome them?

Answer. The United States could not implement a global formulary apportionment regime unilaterally. The implementation of a global formulary apportionment regime would require substantial international coordination and consensus on pre-determined formulae. Thus, a significant number of steps would need to be taken if a global formulary apportionment regime were to be implemented.

First, significant changes to our longstanding statutory and regulatory rules would be required.

Second, reconsideration of the entire U.S. network of bilateral income tax treaties would be necessary. If global formulary apportionment were to be implemented, it would be necessary to ensure that U.S. income tax treaties require or permit the use of such apportionment to determine the taxable income of multinational enterprises. The U.S. network of bilateral income tax treaties is the means by which we reach agreement with our treaty partners on the rules and mechanisms for avoiding double taxation and preventing tax evasion. Each bilateral income tax treaty represents a negotiated balance of the two countries’ interests and is necessarily tailored to the two countries’ particular circumstances. Current U.S. income tax treaties contain articles pursuant to which each country applies the arm’s length standard in transfer pricing matters.

Third, and perhaps most significantly, a consensus regarding the implementation and administration of a global formulary apportionment regime would have to be reached among all of our major trading partners at a minimum. As a longer term matter, a consensus would need to be reached among all countries. Absent such an international consensus, there would be double or multiple taxation of the same income (and also the potential for income to escape taxation altogether). The likelihood that American companies would be subjected to double taxation would be very high if the United States were to attempt to implement a formulary apportionment system without such an international consensus.

Formulary apportionment would require international consensus on the following basic items as a starting point: (1) how to measure the global tax base, including a common accounting system; (2) how to define the scope of the worldwide unitary business subject to the formulary apportionment; (3) the factors to be used to apportion the tax base; (4) how to measure and weight the apportionment factors; (5) how to address the potential for distorting the results under the formula by artificially shifting the factors; and (6) how to address the particularly complex questions relating to intangible property. In addition, proper implementation of a global formulary apportionment system would require establishment of some sort of international body that would have to be vested with the authority to examine the worldwide financial statements of all multinational companies and to which the United States (and other countries) would have to cede the ability to define taxable income.

This summary description of steps that would be required for implementation of a global formulary apportionment regime provides some insight into why the arm’s length standard has become the international standard for dividing the income of a multinational enterprise among the countries where it operates. The arm’s length standard provides a clear and consistent principle which is grounded in economics and to which all countries can agree. The fact that the arm’s length standard is grounded in the underlying economics of the transactions has made it possible to develop an international consensus in favor of the arm’s length standard among countries with very different economic interests.

SUBCOMMITTEE RECESS

Senator SHELBY. Mr. Secretary, appreciate your leadership and look forward to continuing to work with you.

Thanks for your appearance today.

Secretary SNOW. Thank you, Mr. Chairman.

Senator SHELBY. This concludes the subcommittee hearing.

[Whereupon, at 11:40 a.m., Tuesday, April 10, the subcommittee was recessed, to reconvene subject to the call of the Chair.]